

FINANCIAL TIMES

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World News

Aquino calls national state of emergency

President Corason Aquino declared a national state of emergency to combat "the serious social and economic damage" caused to the Philippines by the continuing military rebellion.

Czech negotiations

Formation of a new government in Czechoslovakia dominated negotiations between Ladislav Adamcok, the Communist Prime Minister, and the Civic Forum opposition.

Quayle on Soviets

Two days after the Malta summit, US Vice President Dan Quayle said he saw "little change" in Soviet foreign policy.

Gorbachev talks

President Mikhail Gorbachev is locked in top-level talks on East-West relations at a time when his own party is at a critical juncture.

Israel bans Hussein

Israel banned Palesi Hussein, the prominent Jerusalem Palestinian, from entering the West Bank and Gaza Strip, virtually identifying him as the senior leader of the Palestinian uprising.

China criticises HK

China has criticised Hong Kong at a meeting of the Sino-British Joint Liaison Group which is preparing for China's resumption of sovereignty over the British colony in 1997.

Kohl election delay

Helmut Kohl, West German Chancellor, suggested to the French Government that planned talks on European monetary union (EMU) should be delayed until after Bonn's general elections in 11 months' time.

Oslo freeze goes

Norway's new tripartite centre-right government is to abandon the tough income policy of its Labour predecessor which froze wage growth to 4 per cent for two years running.

Politician bombed

A bomb explosion in Guatemala City, the latest in a series of attacks that have rocked the capital, damaged the home of Foreign Minister Ardel Rivera Irias and injured two passersby.

Hrawl issues threat

Lebanese president Elias Hrawi threatened to resign unless he won control of the presidential palace in Christian Beirut from General Michel Aoun.

French immigration

The French Government introduced a high-profile policy towards immigrants designed to tighten existing restrictions on new immigration.

Sudan talks collapse

Sudan headed for a new round of bloodshed after peace talks collapsed and the Sudan People's Liberation Army rebels accused the government of declaring war by bombing Wadai, a rebel-held town.

Bestseller fined

Regine Deforges, the author of the French bestseller Rime Bicycle, and her publishers were ordered to pay Margaret Mitchell's heirs \$7.5m (\$880,000) for plagiarising her novel Gone With the Wind.

Business Summary

Chrysler may sell air and defence operations

Chrysler, third largest US motor manufacturer, said it might sell its aerospace and defence electronics operations, estimated by some Wall Street analysts to be worth up to \$700m.

FT-SE index

FT-SE index made a slow start but gained 28.2 points at 2,358.7, the peak of the session after heavy over-subscription for the water privatisation issues and unexpected developments in the property and retail sectors.

FT-SE 100 index

NMB Postbank, newly merged Deutsche bank with being partially privatised through a £1.3bn (\$66m) international offering, announced share price of \$23.25 for about 30 per cent of the shares.

KINGFISHER

UK retail group, turned the tables on Dixons by launching a takeover bid worth \$914m for the electrical goods retailer.

SAATCHI & Saatchi

UK communications and consulting group, has cut its final dividend from 8.6p to 1.6p thereby reducing the total dividend from 10p to 9p.

JAPAN'S economy

grew 2.9 per cent in the third quarter, suggesting growth for the year will outstrip predictions.

WEST Germany

is likely to grant a licence to operate the country's second mobile phone network to an international consortium led by Mannesmann, German engineering group.

US economic slowdown

particularly in manufacturing, manufacturing is predicted in the new Federal Reserve's Beige Book regional survey.

MYTSUI Construction

of Japan is to partner Taylor Woodrow, UK property and construction group, in London residential developments.

MERRILL LYNCH

fourth largest dealer to the Eurocommercial paper market, has informed clients it intends to pull out of the business.

HUNGARY is to receive a five year Ecu1bn (\$1.12bn) loan from the European Community to ease its balance of payments position.

BLOOMINGDALE'S

prestigious US department store chain, will be open to buy-out bids due tomorrow but reports suggest offered prices will fall short of Campeau's, the owners, expectations.

ITALY has been told by IMF teams of inspectors to cut public spending and raise taxes if it intends to achieve its 1990 public sector deficit target of \$101.4bn.

Angry citizens raid military establishments in search for evidence of official corruption
E German leaders plead for calm

By David Goodhart in East Berlin

EAST GERMANY'S beleaguered Government appealed for calm last night after warning that angry citizens were attempting to break into military establishments apparently in search of incriminating documents related to corruption.

The warning came only hours after Mr Egon Krenz, the man who has tried to shore up the Communist Party's crumbling authority, resigned as State President and was replaced by the country's first non-Communist head of state.

A government communiqué carried by the official news agency ADN said: "In the past few hours the signs of attacks on the premises and facilities of the National People's Army have been multiplying."

While details remained sketchy, ADN appeared to be referring to incidents in which crowds of people entered army bunkers and other premises as part of a desperate attempt, underway for the past three days, to prevent the destruction or concealment of documents incriminating corrupt officials.

Earlier, the appointment by the Council of State of Mr Manfred Gerlach, the Liberal Democratic Party leader, to succeed Mr Egon Krenz as President marked a fresh move towards oblivion for the old Communist order.



New President: Liberal Democrat Manfred Gerlach

It is now estimated that nearly 300,000 out of an original 2m members have left the party in the past three months. Most are not immediately joining new parties but some have joined the Social Democratic Party which is accordingly picking up momentum.

Reformers were stressing yesterday that even after elections next year the country will remain dependent on vast numbers of middle-ranking officials of the Communist Party because there are simply not enough qualified people outside the ruling party.

One of the most radical economic reform documents published to date, by the economic reform group of the State Planning Commission, yesterday proposed a "socialist market" model. Although social ownership would remain at the core of economic management, the success of the economy was also dependent on various forms of private ownership, said the paper.

The paper also said that most subsidies must start to be phased out and that wages and pensions must correspondingly rise. The subsequent creation of a real price system should allow currency convertibility in the near future.

East Germany's economic reformers are increasingly quoting the example of Austria - a country also cited by Mr Modrow in a recent interview - noting that it combines a high degree of public ownership with a dominant role for the market system.

Although the need for joint ventures with foreign companies is no longer controversial, one economic adviser yesterday said there was still an insistence on sticking to 51 per cent domestic ownership to prevent a "Hungarian sellout."

The same adviser said he was in favour of allowing private ownership in companies of up to 300 people, but that many people still thought this number too high.

In Washington, a State Department spokeswoman said she hopes yesterday's change of guard in East Berlin would lead to a new regime that better reflected the wishes of ordinary East German citizens.

"We would say that we hope that these actions will result in a new leadership that is responsive to the aspirations of the population," the spokeswoman, Mrs Margaret Tutwiler, told reporters.

As President Bush has said many times, we want to see change brought about through self-determination achieved in peace and freedom," she said.

The appeal for calm was the top item on East Germany's main television news programme which said that Lutheran Church leaders were joining in the call, AP reports from East Berlin.

The church leadership insists that in this serious situation, people act properly, with restraint and without violence," said the television.

The National People's Army leadership issued its own statement, saying the military would repel illegal access to "weapons, munition and fuel."

Newspaper develops taste for sipping, Page 2; Veto on new Czech Cabinet make-up, Page 18

Paris and Moscow agree on Germany

By Quentin Poel in Kiev

FRANCE and the Soviet Union yesterday spent out an extraordinary measure of agreement on the need to maintain the status quo to Europe, and to go slow on plans for the reunification of Germany.

President François Mitterrand of France gave his strong support to the Soviet position on a non-European "Helsinki 2" summit in the next twelve months.

Soviet officials say such a summit could reconsider the whole relationship between East and West, and include the acutely sensitive question of relations between the two German states.

The remarkable entente came after just two hours of talks between the heads of state in Kiev, the Ukrainian capital, underlining a broad identity of views between the two European nations with most to fear, historically and geo-politically, from German reunification.

While neither side would call their common ground an agreement, they separately spent out far-reaching similarities in their positions: both stressed the reality of two legal German states, as recognised in the current Helsinki agreement; both say intra-German relations cannot be divorced from East-West relations in Europe; both say that all European nations must have a say in the process; both say that any change must come peacefully and democratically; both say there can be no change in the other borders and frontiers of Europe; both admit that the pressure for reunification is real, and cannot simply be ignored.

Mr Gorbachev said that the two sides had a "substantial discussion" of the whole German question, against the background of the very turbulent period through which we are living.

The Soviet leader showed his continued backing for the reforms in Eastern Europe, stressing that the common theme in them all was "a high level of democratisation, opening of society and creating structures which will reflect the interests of the people."

Both leaders underlined the need to start from a recognition of two separate German states as accepted in the original 1975 Helsinki agreement and represented at the UN.

Referring to the growing demands within the two Ger-

Investors rush for shares in UK water companies

By Clare Pearson and Andrew Hill in London

BRITAIN'S \$5.24bn (\$8.2bn) water companies' flotation has been oversubscribed after a last minute rush by the public to apply for shares ahead of the closure of the offer-for-sale yesterday morning.

Expectations were that the offer to the public had been at least two times subscribed, as would be shareholders formed huge crowds outside receiving centres around the country to beat the 10am deadline for hand deliveries of forms.

An announcement from J. Henry Schroder Wagg, the investment bank advising on the flotation, on whether the £1.2bn worth of shares initially allocated to the public has been more than 1.75 times subscribed - enough to trigger clawbacks from overseas hold-



Police turn away prospective investors in the privatisation of Britain's water companies at the closing of applications in London yesterday

West German leaders mourn murdered Deutsche Bank chief

By David Marsh in Frankfurt

MR Alfred Herrhausen, the murdered chief executive of the Deutsche Bank, his oak coffin decked with yellow narcissi, was mourned yesterday by the leaders of West Germany's business and public life in a solemn outpouring of state sorrow in Frankfurt's rebuilt Gothic cathedral.

Speaking at the end of a 2 1/2-hour requiem mass, Mr Helmut Kohl, the Chancellor, issued a tribute of defiant patriotism for a man he valued as a friend and adviser: "Alfred Herrhausen earned the merit of the Fatherland."

Mr Kohl's closing words in a 15-minute funeral oration were delivered in a voice husky with emotion. They were both a message of grief and a firm reminder that - at this time of momentous change to East Germany - the Chancellor intends to keep the theme of German national unity at the top of the political agenda.

The Chancellor also warned against "character assassination" of top businessmen in a statement indirectly aimed at parts of the West German media, which have been focusing on the concentration of power of the Deutsche Bank.

Mr Herrhausen, the most potent symbol of West Germany's economic might, was killed by a bomb from the Red Army Faction terrorist group which blew up his armoured Mercedes to Bad Homburg, outside Frankfurt.

Underlining his pivotal role in the Federal Republic, the 1,000-strong funeral congregation yesterday included President Richard von Weizsäcker, most of the Bonn cabinet, Mrs Rita Süssmuth, the president of the Bundestag, and Mr Karl Otto Pöhl, the head of the Bundesbank.

Among the captains of industry were Mr Edward Reuter, the chairman of Deutscher-Bank - of which Mr Herrhausen was the supervisory board chairman - and Mr Berthold Beitz, the veteran Krupp chief.

Mr Giovanni Gianni Agnelli, the head of Fiat, and the US, British and French ambassa-

Europe in har split with EC partners, Thatcher will go on and on

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Hong Kong Vietnam beckons as boat people fall screening test

Trades CoCom rocked by the crumbling wall

Law UK regulation rules too detailed

Editorial Comment: The building of Europe; Strong case for UK embryo research

Economic Viewpoint: A win for Germany

Surveys: World Diesel Engine Industry; International Advertising

Separate sections

Observer

Raw Materials

Stock Markets

Wall Street

London

Technology

USA

Weather

World Index

Saatchi's trend-bucking comes to an end



Maurice Saatchi (left), along with his brother, Charles, founded the advertising agency 19 years ago. But recently its share price in the UK has waxed and waned and there is uncertainty over the future of the group.

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MARKETS table with columns for Sterling, Dollar, Stock Indices, and various market data.

Advertisement for Black Country Development Corporation featuring a hand holding a coin and the text 'A £1.5m training budget means nobody needs to go short.'

## EUROPEAN NEWS

## Soviet plenum set to debate pace of reform

By Quentin Peel and John Parker in Moscow

PRESIDENT Mikhail Gorbachev is locked in top-level international talks on East-West relations at a moment when his own party is at a critical juncture.

A plenum of the Soviet Communist Party central committee is to be held on Saturday to prepare for next week's Congress of People's Deputies and it seems certain to be the stage for furious debate on the progress of political and economic reform.

At the same time radical demands for reconsideration of the monopoly role of the Communist Party, enshrined in Article 6 of the constitution, are coming to a head in advance of the Congress, following decisions by East Germany and Czechoslovakia to abandon similar provisions.

Two senior government figures - Mr Anatoly Lukyanov and Mr Yegor Glinin - are expected to lead the abolition of Article 6.

The highest Soviet officials admit that the behaviour of the 2,250-member Congress is no longer possible to predict. Despite an inbuilt conservative majority, deputies have been radicalised by the need to report to their constituents.

The majority are also deeply frustrated at being kept on the sidelines while the Supreme Soviet, elected from their own number, has tried and often failed to begin creating a new legal basis for the Soviet state.

Mr Gorbachev intends the economic debate to be the main item on the Congress agenda, taking up at least four days.

But the hectic pace of reform in Eastern Europe, the worsening ethnic relations in Soviet republics and the status of the Communist party, are all certain to force their way into an explosive debate.

all his public pronouncements appear to conflict with Mr Gorbachev's statements on the need for more radical change in property relations and the centralised planning system.

Elbert, however, his position within the leadership has obviously been more useful to Mr Gorbachev, as a counterweight to demands for more radical reform.

Virtually coinciding with the central committee plenum will be a meeting of the Inter-regional Group within the Congress of Deputies - the 400-plus group of deputies headed by Mr Boris Yeltsin, Dr Andrei Sakharov and others. They are being asked to support a move to have Article 6 formally debated at the Congress.

On Sunday, the dissident Democratic Union is planning a demonstration in Moscow, featuring a provocative burning of photographs of the politburo members.

The new coalition headed by Mr Jan Slys, the Conservative party leader, is aiming to convince trade unions to accept wage increases of 3-4 per cent in 1990. A recent central bank report issued a warning about pay rises, saying that "if wage growth exceeds 3.5 per cent, it will have unfortunate consequences for employment far into the 1990s."

The unemployment rate, at 4.4 per cent, is currently at its highest since the 1980s.

The former minority Labour Government of Mrs Gro Harlem Brundtland implemented the tough incomes policy as part of a package of austerity measures to help put Norway's

BERLINER ZEITUNG REPORTERS UNCOVER MORE CORRUPTION AS EVERY DAY PASSES

## Newspaper develops a taste for investigations

By David Goodhart in Berlin

WHEN A YOUNG huddler called on the offices of East Berlin's Berliner Zeitung at the end of October to provide details of the luxury home he was hoping to build for Mr Gerhard Neumann, a senior trade unionist, he unwittingly launched East Germany's first attempt at investigative journalism.

He chose the Berliner Zeitung, which had a circulation of 450,000, because it had a reputation for being slightly less official than the party organ Neues Deutschland and had, under the protection of East Berlin party leader Mr Günter Schabowski, printed a few calls for economic reform.

The paper has now become the key source for the daily corruption revelations and its

journalists collaborate in exposing former officials with the public prosecutor's office and the new parliamentary committee on corruption.

According to the 46-year-old economics editor, Mr Dieter Resch, who has had direct responsibility for the revelations, the campaign to root out and expose corruption will last at least six months more.

Yesterday's edition alleged that a former leader of one of the Communist-allied parties held DM250,000 (250,000) in foreign bank accounts. Today's edition promised news of trade union leaders' expensive holidays.

Mr Resch, like many of the country's new leaders, clearly finds his new role - as cam-

aigning journalist - a little uncomfortable. Despite a reputation for reformist economic views he was not previously considered radical, and was recently attacked in a satirical magazine.

He says he does not enjoy revealing just how rotten the system has been and fears that his paper's reports could be contributing to a potentially destabilising atmosphere. But he admits candidly: "If we don't do it, somebody else will."

Mr Resch denies that collaboration with officials from the public prosecutor's office respects any requirement to respect socialist legal laws and claims that "we must be able to prove everything".

He does, however, regret his

slowness in publishing full details of the activities of Mr Alexander Schalck-Goldkowsky, the fugitive former currency trading chief.

The newspaper gave the authorities a dossier on Mr Schalck at the end of last month, and published a detailed story about him December 3.

Mr Resch will not reveal his sources for that story but says that the original source for most of the daily corruption stories comes from ordinary readers. "They used to tell us these things in the past too, but we didn't believe them," he admits.

The ordinary readers are particularly interested in tales of socialist hypocrisy - "Did

you know, for example, that there are 11,000 millionaires in East Germany?" he asks.

After a lifetime of direct political direction "which disappeared virtually overnight", according to Mr Resch, the paper certainly has the capacity, if not always the will, to dig around. It currently employs 50 journalists to fill eight pages and also uses a lot of newsagency copy.

All journalists are well trained, with at least four years' study at the East Berlin University in Leipzig, but Mr Resch says half of them could disappear without any difference in the paper's output. "Too many journalists either do nothing or just ask every day, 'What shall I do?' They don't think," he says.

## Brussels says Japan must curb car exports

By Lucy Kellaway and William Dawkins

EUROPEAN commissioners yesterday agreed that a transitional period was needed to protect EC car-makers from Japanese imports after the lifting of national quotas in 1990. This would consist of a voluntary restraint arrangement to cover imports and possibly cars assembled in Europe.

The agreed position, deliberately devoid of detail, is a compromise between the views of Mr Martin Bangemann, Internal Market Commissioner, who favoured complete liberalisation of markets after 1992, and countries like France and Italy which wanted an array of restrictive measures, including local content rules, European quotas and firmly established reciprocal access to markets.

Brussels has ducked putting a limit on the transitional period, or giving any idea how the monitoring arrangements would work. The aim, said Mr Bangemann, was "a smooth transition from restrictions to the final situation of an open market".

The proposal will be discussed by member states later this month, when some will push for a short period of 2-3 years, and others wanting well over five.

Mr Bangemann said Brussels had no intention of imposing local content rules, which in any case were prohibited under GATT. However, Japanese production within the EC might be monitored during the transitional period.

The Commission would not seek to establish a formula for linking the opening of the European car market to that of the Japanese market, but would simply attempt to obtain an improvement in the broad balance of trade flows.

Most commissioners argued yesterday that national quotas should be phased out as soon as possible.

A fresh call for strict reciprocity between the car industries of the EC and Japan yesterday came from Mr Jacques Calvet, president of PSA, the producer of Peugeot and Citroën cars.

Mr Calvet urged that the European manufacturers should be opened when Japan and the EC had a more equal penetration of each other's markets, with local production subject to strict local content criteria, fixed on a "pragmatic" case-by-case basis.

That meant Tokyo should allow the EC to sell more cars in Japan (half the size of the Community market) as Japanese producers export to the EC.

Only then would EC and Japanese car producers be competing on equal terms, he argued. Last year, Japan exported 1.2m cars to the EC, roughly 11 times more than the Community's car sales in Japan.

## Norway to drop pay control policy

By Karen Fosell in Oslo

NORWAY'S new tripartite centre-right Government is to abandon next year the tough incomes policy of its Labour predecessor which froze wage growth to 4 per cent for two years running.

The new coalition headed by Mr Jan Slys, the Conservative party leader, is aiming to convince trade unions to accept wage increases of 3-4 per cent in 1990. A recent central bank report issued a warning about pay rises, saying that "if wage growth exceeds 3.5 per cent, it will have unfortunate consequences for employment far into the 1990s."

The unemployment rate, at 4.4 per cent, is currently at its highest since the 1980s.

The former minority Labour Government of Mrs Gro Harlem Brundtland implemented the tough incomes policy as part of a package of austerity measures to help put Norway's

oil-dependent economy back on track. The economy plunged precipitously in 1988 when prices fell below \$10 a barrel from highs of \$40 earlier in the decade.

The new coalition Government believes it will succeed in keeping down wage growth during next spring's wage negotiations because of its recent income tax reforms. The top rate of income tax is to be lowered to 59.3 per cent next year from the present 62 per cent, and to 55 per cent in 1991.

A priority of the new Government is to improve the supply side of Norway's economy. To this end it has promised to increase the efficiency of central and local government activities. Adapting the economy to post-1992 and lowering trade barriers in conformity with the General Agreement on Tariffs and Trade are also expected to contribute.

## IMF warns Italy on debt target

By John Wyles in Rome

THE Italian government has been told by a sharply critical team of inspectors from the International Monetary Fund to cut public spending and raise taxes if it really intends to achieve its 1990 public sector deficit target of L133,000bn (255bn).

Achieving the target - equal to 11 per cent of gross national product - has to be a "minimum objective" if Italy is to have any hope of curbing by 1992 the growth of a public debt which is now broadly equal to gross domestic product, says the 7-page report presented this week.

Outlining the case for measures over and above the draft 1990 budget which parliament is now considering, the IMF team say they have "many reservations" about whether the deficit target will otherwise be met. Spending controls appear "fragile" in many respects, they say, while interest payments will be higher than forecast, as may be public salary costs after a new wage round.

Badly needed reforms of health service spending are "all in the future", while spending allocations already approved but not yet drawn down could easily cause over-spending as next year's regional elections approach.

The report says that all of these things could cause a deficit next year of L140,000-145,000bn unless the government considers cutting aid to the regions and public industries as well as reducing spending on pensions.

Warning of the tests lying ahead with the lifting next year of all capital controls and the acceptance of a narrower oscillation band for the lira in the Exchange Rate Mechanism, the IMF says only action on the budget deficit and a strict incomes policy in both the public and private sectors can "lead to a better evolution of prices and maintain the competitiveness of the Italian economy."

## EC to lend Hungary Ecu1bn over 5 years

By David Buchan in Brussels

HUNGARY is to receive a five-year Ecu1bn (733m) loan from the European Community to ease its balance of payments position. Mr Henning Christophersen, the Commissioner responsible for macro-economic affairs, said it was the first loan to be granted to a country outside the Community, and would be raised on the capital markets in the form of a syndicated credit or a bond issue with a guarantee written into the 1990 EC budget.

The loan, requested by Hungary in September and endorsed by EC leaders at their Paris summit, had three "pre-conditions" attached to it, said Mr Christophersen. These were that Hungary should agree on a credit adjustment plan with the International Monetary Fund and on the terms of supplementary economic restructuring with Brussels, and that the loan "should not be used to replace private credits."

The Commission aims to pay Hungary the first tranche in the first quarter of next year. If Hungary received no money before March-April, Mr Christophersen did not rule out the idea of a shorter term bridging loan.

While following the overall IMF lead in the politically sensitive job of supervising Hungary's restructuring, Mr Christophersen said the Community would set some "micro-economic" conditions to encourage private enterprise, in addition to the traditional IMF aggregate targets.

The EC loan would be paid out in three tranches and supervised by the Monetary Committee. Another reason for imposing separate EC conditions on Hungary was that the loan term might outlast that of a IMF standby credit, which is usually less than five years.

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## G7 to discuss IMF funds

By Peter Norman, Economics Correspondent

SENIOR finance ministry officials from the Group of Seven leading industrial countries plan to meet in Frankfurt next Monday for further discussion of the vexed issue of increasing the resources of the International Monetary Fund.

The officials - known as the G7 deputies - are also expected to discuss Western financial support for Eastern Europe at the start of a week in which several Western international bodies will be considering moves to help Poland.

According to international monetary officials, next Monday's G7 deputies meeting could be a prelude to a full-scale gathering of finance ministers from the US, Japan, West Germany, France, Britain, Italy and Canada early in the new year.

Such a meeting could precede a special session of the IMF's policy-making Interim

Committee. Already, tentative preparations are being made for an Interim Committee meeting in the second half of January in the hope that it might settle the quota issue.

The question of quotas will be raised in Washington tomorrow at a meeting of the IMF's executive board. Although some progress has been made recently, the positions between the main IMF member countries are still far apart.

The US has said it will back a 50 per cent increase in quotas from the present \$116bn special drawing right level and has indicated that it might support a bigger boost. Other countries such as France support a doubling of quotas.

The IMF member countries also have to settle the dispute over membership rankings, with Japan seeking to jump to number two position after the US.

## France tightens immigration controls

By Ian Davidson in Paris

THE French Government yesterday introduced a high-profile policy towards immigrants designed to tighten existing restrictions on new immigration.

The move follows Sunday's breakthrough by the right-wing National Front party in by-elections at Dreux and Mar-seille. In both seats, the party campaigned on an overtly anti-immigrant platform.

The Government yesterday responded by underlining long-standing curbs on immi-

gration. "The economic situation of France no longer allows it to be a land of immigration," said a government spokesman.

In principle, new legal immigration has been at a stop since 1974, apart from family reunions.

New restrictions announced yesterday are aimed at tightening up on illegal immigrants, who may amount by some guesses to as many as 1m, on top of approximately 4m legal immigrants. In addition, the Government aims to speed up

the processing of applications for political asylum, which are likely to have doubled this year to 60,000.

In the past, delays were so long that many applicants were effectively able to settle as illegal immigrants.

The Government will also seek to promote the integration of immigrants into French society through a permanent Ministerial Committee, which has been formed to give extra help with housing, jobs and education.

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EUROPEAN NEWS

Kohl wants to put off EMU talks UK prepares to polish its tarnished European reputation

By David Marsh in Bonn

MR HELMUT KOHL, the West German Chancellor, has suggested to the French government that a planned inter-governmental conference to prepare the way for European monetary union (EMU) should be delayed until after Bonn's general elections in 11 months' time.

The letter, which is likely to disappoint but not fundamentally surprise President François Mitterrand, has been sent in advance of this weekend's Community summit at Strasbourg, officials said here yesterday.

While giving basic support to the goal of EMU, the letter proposes that changes in the treaty to make the monetary union possible should come into effect by 1994 - the date of the next elections to the European Parliament.

This is seen in Bonn as a way of side-stepping Mr Mitterrand's proposal that an inter-governmental conference on EMU should be held in the second half of next year.

MR DOUGLAS HURD, the British Foreign Secretary, has rejected suggestions that the UK Government does not have a strategic view of Europe and has indicated that he will make a determined effort to refurbish Britain's tarnished European reputation.

Mr Hurd, though careful not to stray from the well-known European policy principles laid down by Prime Minister Margaret Thatcher, clearly indicated in an interview with the Financial Times that Britain had to project a more enthusiastic pro-European image.

Mr Hurd rejected criticisms that the Government did not have a grand design for Europe, arguing that the 1982 single market project was largely a British creation.

He said he has a longer-term idea of what he would like to see in Europe, but he is not sure he can explain and build on a very wide measure of agreement, not just in the Conservative Party, but in the country as a whole, on what kind of Community we want in the longer term.

Robert Mauthner talks to British Foreign Secretary Douglas Hurd about the issues likely to be raised at the EC summit in Strasbourg

The majority of Conservative Members of Parliament, who have long ago shed a sort of basic anti-Europeanism, who think membership of the Community is a good thing and who accept it is not static and is bound to develop.

Mr Hurd confirmed that, if Britain's partners decided to hold an inter-governmental conference to discuss treaty changes required by the setting up of a European Central Bank and other aspects of economic and monetary union, Britain would attend it.

That did not mean that Britain was in favour of stagnation and immobility. The Government merely felt that moves towards economic and monetary integration should follow a logical sequence.

First of all, the single European market had to be completed. Then, the Community should move on to stage one of the Delors Plan for European Monetary Union (EMU), which foresees all member countries joining the European Exchange Rate Mechanism (ERM) and the abolition of all exchange controls.



Hurd: "We do not agree with some people... that one should take the opportunity of events in Eastern Europe to expand EC membership so quickly that it would lead to its dilution."

In her split with EC partners, Thatcher will go on and on Don't hold your breath for a final Clash of Titans with Mitterrand in Strasbourg tomorrow: there will be sequels

MEDIA hype has given the European summit opening in Strasbourg tomorrow all the advance suspense of a final Clash of Titans, with Mrs Margaret Thatcher pitted against President François Mitterrand as the battling champions of two irreconcilable views of the European Community.

On this occasion, however, media hype is likely to be doubly wrong. One, President Mitterrand will get his way, with a decision to launch Economic and Monetary Union at a special conference next year.

West Germany. After everything that Mrs Thatcher has done in the Community and in Nato, he cannot now take her side, unless he has indeed decided to reduce Germany's commitment to the Community.

In fact, the situation is so politically charged that Mr Kohl has no neutral options, and therefore little freedom of movement. Any German wavering in Strasbourg will be interpreted as a major political decision of principle.

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Yet that is not necessarily the end of the story. Mrs Thatcher has no chance of winning the moral argument; but the traditional integrationist Community model could fail, if the Community were to start to disintegrate.

The West German Government has repeatedly said, no doubt sincerely, that its policy remains embedded in the Community and Nato.

Thatcher, so with Chancellor Kohl neither can be committed in advance to what must be negotiated in the ICC itself. Only then will hard indications of true German intentions start to become apparent.

IAN DAVIDSON ON EUROPE

Europe, Chancellor Helmut Kohl might prefer to hang back from a major strengthening of German integration in Western Europe, especially in a scheme which meets misgivings from West Germany's central bank.

Advertisement for Daewoo featuring the slogan 'WHO IS IN EVERYTHING FROM A TO Z?' and a grid of 26 letters (A-Z) each accompanied by an image of a product or service. The products include: AEROSPACE, BIOTECHNOLOGY, CARS, TRUCKS & BUSES, DIESEL ENGINES, ELECTRONICS, FORKLIFTS, GARMENTS & TEXTILES, HOTELS & HELICOPTERS, INDUSTRIAL ROBOTS, JET PARTS, KEYBOARDS, LASER-CUTTING MACHINES, MICROCHIPS, NEGOTIABLE BONDS, OPTICAL FIBERS, PESTICIDES, QUALITY CONTROL, ROAD CONSTRUCTION, SHIPBUILDING, TELECOMMUNICATIONS & TOOLS, URANIUM DEVELOPMENT, VALVES, WORLDWIDE NETWORK, X-CAVATORS, YARN & YACHTS, ZERO-DEFECT EFFORTS. The Daewoo logo and name are prominently displayed at the bottom, along with contact information: C.P.O. Box 2810, Seoul, Korea Fax: (02) 753-9489.

OVERSEAS NEWS

# Singh shows flair in distributing cabinet posts

By David Housego in New Delhi and Gita Piramal in Bombay

MR V.P. SINGH, India's new Prime Minister, yesterday named a veteran politician with a commitment to clean government as his Finance Minister and Moslem as Home Minister in what was seen to have been an imaginative distribution of ministerial portfolios.

The Prime Minister brought in Professor Madan Dandavate, aged 68, a long-time Socialist with no experience of economic management but respected as an efficient former minister of railways and a pragmatist, to head the Finance Ministry.

Professor Dandavate said that his immediate task was to tackle India's "high degree of indebtedness" - suggesting that one of the first choices facing the Government will be whether to go ahead with fresh borrowing from the International Monetary Fund or to try to avoid this through import controls. Mr Dandavate said India's external debt, including deposits by non-resident Indians, was about \$60bn and that the debt servicing ratio was more than 30 per cent.

The Prime Minister named Mr Ajit Singh to the other senior economic post of Minister of Industry. A northern farmers' leader, he is also a computer engineer trained in the US who has worked with IBM.

Mr Singh kept the sensitive Defence Ministry for himself but caused widespread surprise in appointing Mufti Mohammed Sayeed, aged 53, a Kashmiri-born Moslem and a former minister under Prime Minister Rajiv Gandhi, as his Home Minister.

Mufti Sayeed will therefore have responsibility for handling Hindu-Moslem tensions over the proposed shrine at Ayodhya as well as the incipient insurgency in Moslem-dominated Kashmir. His appointment is bound to raise apprehensions within the militant Hindu BJP party, an ally of the ruling National Front, but will be welcomed by Moslems.

At the first meeting of the cabinet last night, it was decided to establish a committee under the Finance Minister to control prices - particularly



Foreign Minister L.K. Gujral

of sensitive food items like sugar and edible oils - and to call an all-party conference on Sikh militancy in the Punjab and Kashmir.

Among other prominent appointments, Mr Indar Kumar Gujral, a former opposition spokesman on foreign affairs and ambassador to Moscow, becomes Foreign Minister.

Mr Arun Nehru, a cousin of Mr Gandhi and also a minister in his government, was given the Commerce Ministry and therefore responsibility for import-export policy.

Mr Devi Lal, deputy Prime Minister and a farmers' lobbyist, was put in charge of agriculture.

There had been concern that Mr George Fernandes, a former industry minister who had threatened to resign over a role in the Bofors scandal in which Mr Gandhi is implicated.

Mr Ranjan Wijeratne, the Sri Lanka Foreign Minister, left for Delhi yesterday on a goodwill mission. It is believed the withdrawal of the Indian peace-keeping force from Sri Lanka will be high on the agenda.

# Philippine debt accord put in doubt by coup attempt

By Stephen Fidler, Euromarkets Correspondent

ANXIETIES are growing about an agreement between the Philippines and its foreign bank creditors on its commercial debt. Bankers say it is premature to predict that the deal, struck in August between its leading banks and the government, will unravel. But prospects for its early implementation have been slowed by the sixth coup attempt against the Government of Mrs Corason Aquino.

The accord was hailed in August as the way forward for the International Debt Restructuring Bankers, smarting from the political pressure which forced them to come to agreement in principle with Mexico, held out the voluntary nature of the Philippines deal as an example for the future.

Even before the attempted coup,

the agreement was running into difficulties.

The idea had been that banks wishing to stay as lenders to Philippines would make loans perhaps \$1bn or more. A preliminary survey indicated that \$800m-\$900m might easily be forthcoming. Those wishing to exit would tender their loans for cash in a buy back which would be financed largely by resources from the World Bank and International Monetary Fund.

With its bank debt of about \$8bn accounting for a small proportion of its \$28bn foreign debt, it would have been difficult for bank debt reduction alone to cover the country's financial needs. This was one reason for the greater emphasis on new loans than

in the Mexican package, for example. A significant shortfall in the expected commitments for new loans now seems likely. This was in part because some large Japanese bank lenders, having been expected to make new loans with the approval of their Ministry of Finance, in the end opted for the debt buy-back.

Banks have indicated willingness to make only about \$570m in new loans. The banks are not yet closed but the coup attempt, even if it fails, will not encourage uncommitted banks to put up new funds. If these funds are not forthcoming, there is a danger that those banks which have indicated an intention to make new loans will pull back from the transaction. Even if they stay committed and

the Philippines is content with the lower amount, there is then the question of the reaction of the IMF, under whose auspices the whole package has been put together.

The other part of the deal, the debt buy-back for 50 cents has been less of a problem. The Government accepted tenders from 140 commercial banks to buy back \$1.312bn of debt, after receiving tenders of \$1.83bn from 166 financial institutions.

The Government appears to have concentrated on slimming down its bank lender group by about 90 banks, leaving about 50 as longer-term lenders. Beyond that the basis for rejecting other tenders seems to be less clear, although loans to finance a nuclear power project in the country

have not been accepted. Bankers report differences in perception about what "voluntary" means. To the banks, it means they are within their rights to do nothing, while the Government would rather interpret it as indicating that there is freedom of choice between the two options.

Significant political effort from the US and Japanese governments is unlikely likely if the deal looks in danger of collapse. Without it, the Brady initiative, launched in March by the US Treasury Secretary, will have no non-American jewel in its crown. Near-impasses is reported in negotiations between banks and another leading non-American Brady candidate - Morocco.

# Vietnam looms again as boat people fail HK test

Most immigrants are failing to put up a convincing case against repatriation, writes Michael Marray

ABOUT 90 per cent of Vietnamese boat people going through the Hong Kong Government's screening process have so far failed to qualify for resettlement in third countries. Thus they face a forced return home under the planned programme of mandatory repatriation.

If this trend continues it will mean that over 37,000 of the 44,000 Vietnamese who arrived after screening was introduced in June 1988 will be forcibly sent home. (Hong Kong's total Vietnamese population is 57,000).

The immigration department and the refugee status review board, to which the boat people may appeal, have so far dealt with cases involving 7,000 and 4,000 people respectively.

The Hong Kong Government and those involved in the process reject allegations from human rights groups that the boat people are not getting a fair hearing.

"It is never easy to listen to a man's story and tell him he's a liar," comments Mr Francis Blackwell, a former judge who chairs the review board. But he adds that having processed several thousand cases he has found clear patterns emerging and it is often possible to tell from the story which camp the applicant has been living in.

Mr Blackwell dismisses criticisms from activists who claim the system is unfair and that there is government pressure to keep the number of successful appellants down.

"Nobody has ever told me how many to screen in (recom-



More boat people queue at a Hong Kong centre to discover if they will be relocated overseas or sent back to Vietnam

mand resettlement) and screen out (recommend repatriation)," he said. The Government also points to the close involvement of the United Nations High Commission for Refugees. The initial screening is carried out by the Hong Kong Immigration Department and the commission has unlimited access to all interviews and case files.

The commission has had to intervene in more than 30 cases of people screened out, raising questions about how the screening is done. One man rejected for refugee status was

a Vietnamese who worked in Czechoslovakia as a guest-worker and became involved with the Charter 77 political protest movement. He was immediately arrested on his return to Vietnam. Yet the screening process rejected him as a political refugee. The commission intervened, and he will not now be sent home.

So far 708 out of 7,165 boat people have been screened in, including those who have relatives abroad and quality under the family reunification category. The 5,457 screened out as

economic migrants gives a failure rate of 90.2 per cent, which the authorities say is coincidental and not proof that there is a policy to admit only 10 per cent of applicants.

Those screened out have 28 days to go to Mr Blackwell's review board and the vast majority take the opportunity to be represented by legal consultants working under the auspices of the UN commission.

The board began its hearings in June, replacing the unwieldy system where cases

were reviewed by the governor sitting with the executive council.

The board has heard 1,568 cases involving 3,624 people, reflecting the large number of families among the boat people in Hong Kong. The board has upheld the initial decision in 1,481 cases involving 3,561 people. In 97 the decision has been overturned, meaning that 283 people, 7.5 per cent of appellants, have been screened in.

Mr Blackwell says that political persecution is the most common reason to grant refu-

gee status. "Even at the factory level they might have disagreed with the policy and been suddenly categorised as opposed to the Government," he said. "Life can then become distinctly unpleasant."

However, in general Mr Blackwell says that he finds the applicants are seeking a better life outside Vietnam and not facing persecution.

Despite international opposition, the Hong Kong Government insists this is the logical outcome of the screening policy, which was first introduced on June 16 1988, when the flood of arriving boat people sometimes reached 1,000 a day. Previously boat people were automatically classified as refugees, which allowed them to stay in Hong Kong camps pending resettlement in third countries.

The Hong Kong administration has a big logistical problem in transporting back to Vietnam those who have been screened out, and government representatives are searching for suitable ships or aircraft to charter.

The Government faces large backlogs both in screening the boat people to decide who goes home and in transporting them once the decision is made. The review board has a target of hearing cases involving 400 people each week but even if this is met it could take two years to complete the task, even if there is no new influx of boat people next spring as favourable weather may allow from the coast of Vietnam towards Hong Kong.

## Israeli export agency reveals \$37m deficit

By Hugh Carnegie

AGREXCO, Israel's monopoly fruit producer, yesterday said its export agency, has disclosed a deficit of \$37m (\$24m), much of it owed by the country's producers, and has called on the Government for help.

The news emerged only days after Agrexco, which is 90 per cent owned by the state, signed a breakthrough agreement to sell \$30m worth of fresh fruit and vegetables to Moscow in the first six months of next year. Officials hope the contract will lead to the opening up of a significant market for Israeli products in the Soviet Union.

Agrexco officials insisted that the deficit posed no threat to its operations and that cash flow in the current season was stronger than last year. The agency has an annual turnover of about \$450m, handling virtually all Israel's exports of fresh agricultural produce.

The officials said the \$37m deficit represented the position at the end of 1988, and the situation had not worsened this year. A large portion was attributed to the failure of Israeli marketing and production companies, which together own the balance of Agrexco not held by the Government, to repay loans from the agency.

## Israel bans leading Palestinian

By Hugh Carnegie in Jerusalem

THE Israeli authorities yesterday banned Mr Faisal Hussein, the prominent Jerusalem Palestinian, from entering the West Bank and Gaza Strip, virtually identifying him as the most senior leader of the Palestinian uprising, or *intifada*, in the occupied territories.

Army orders imposing the ban for six months from yesterday - three days before the sensitive second anniversary of the *intifada*'s start - were delivered to Mr Hussein at his home on the Mount of Olives in east Jerusalem citing only public security as the reason.

But detailed hearings prepared for reporters by military officials spelled out a list of accusations against him including that he was active in co-ordinating the various Palestine Liberation Organisation and Islamic Fundamentalist factions in the territories and establishing himself as the senior activist from Fatah, the mainstream PLO faction headed by Mr Yasser Arafat, the PLO leader.

Mr Hussein, from one of Jerusalem's most prominent Arab families with a long history of Palestinian nationalism, spent most of the first year of the *intifada* under detention without trial. Since his release last January, he has assumed a leading public role as an advocate of the uprising and supporter of PLO policies for an independent Palestinian state in the West Bank and Gaza.

He is widely regarded by foreign diplomats, Palestinians and Israeli moderates alike as a person who would play a central role, out front or behind the scenes, in any negotiated settlement with Israel. But Israeli right wingers - especially Jewish settlers in the occupied territories - have consistently pressured the Government to act against him as an instigator of *intifada* violence, once even distributing "wanted" posters carrying his picture.

The military yesterday said he had been personally involved in aiding anti-government actions, had initiated illegal protests such as the



The mother, sister-in-law and nephew of Ahmed Shaker, suspected of killing an Israeli man, sit by their wrecked home after it was blown up by the Israeli army yesterday

recent tax boycott by the West Bank town of Beit Sahour and had attempted to set up an independent Palestinian judicial system in the territories.

The ban on Mr Hussein did not include travel within Israel or overseas, which he has been allowed to do since his release from jail.

## China renews criticism of Hong Kong

By John Elliott in Hong Kong

CHINA HAS continued its four-month-old attacks on Hong Kong over the past two days at a meeting in Hong Kong of the Sino-British Joint Liaison Group which is preparing for China's resumption of sovereignty over the British colony in 1997.

The attacks have been more muted than at the last meeting of the group in London two months ago, when the two countries met formally for the first time after the June crackdown in Peking. UK officials hope that some practical work on details of the colony's future will be resumed before the session ends tomorrow.

During the past two days, China's representatives have repeated accusations that Hong Kong had become a centre for subversives who want to bring down Peking's Communist regime.

They also allege that the UK and Hong Kong are trying to "internationalise" the colony's future. They repeated complaints about plans for a reclamation and redevelopment scheme near the colony's central area, which will mean closing part of a British naval base. They want the base left for their own possible use after 1997.

## Gadafi to boost role of private sector in economy

By John Elliott in Tripoli

AFTER years of rigid state control, Libya is encouraging private business so long as it follows Colonel Muammar Gadafi's ruling that workers are partners and not slaves, Reuter reports from Tripoli.

"The intention is to expand gradually the role of individuals and co-operatives in the economy," a confidential official document says.

It indicates the authorities will not allow private businesses to grow into capitalist-style companies where the workers receive wages and the owners reap the profits.

But foreign economists say the proposed measures would boost the private sector and follow encouraging early results of an economic liberalisation programme launched in 1988.

The Government plans to cut its budget deficit by phasing out all subsidies on foodstuffs such as wheat, flour, sugar, tea and salt. However, controls on prices and exchange and interest rates will not be eased in the near future, the document said.

After years of strict control of all businesses except small farms and private artisans, the Government last year allowed private shops to reopen and began to encourage small enterprises in the services and manufacturing sectors.

Ownership of some state-owned factories has been transferred to the employees under the "partners, not wage slaves" scheme. Libya depends heavily on oil but lower world prices in recent years have hit the economy.

The document, a rare insight into government economic planning, says: "These initiatives should be considered the start of a gradual process that will be deepened and developed in the light of evolving circumstances."

The only workers in private companies must be family members of company partners, according to Gadafi's theories. In practice, partnerships often employ foreigners illegally.

The next stage of the liberalisation will come when the Government allows private companies and partnerships to import directly most types of goods.

"Eventually public and private entities will share important activities equally," the document says. The public sector dominates at the moment.

To stimulate the private sector and ease balance of payments pressures, foreign consultants have urged the Government to devalue the dinar to boost exports, raise interest rates to encourage savings and end fixing retail prices.

## Tokyo to give \$35m funding to Peking

By John Elliott in Tokyo

JAPAN has given China a grant of \$35m, its first government aid to Peking since relations were spiced by a military crackdown in June, Reuter reports from Peking.

A Japanese embassy official said yesterday that the two sides had agreed on the gift last year and Japan's suspension of new funding to China remained unchanged.

Western nations and Japan froze government lending and aid to Peking after China's army crushed a student-led campaign for democracy in June, killing hundreds and possibly thousands of people.

The grant was originally planned for May or June this year and was postponed because of the unrest in China. China's official press hailed the gift as a step toward restoring ties between the two countries.

Peking is keen to lure back Western loans and aid money, badly needed to pay for modernisation at a time when the country is strapped for cash.

The Japanese official said Tokyo wanted Western nations to improve their ties with Peking and opposed international policies that would isolate China.

"We do not think that this grant will cause problems in our relations with Western countries," he said.

# 'Outlaw' Aoun's refusal to go paralyses Lebanese peace process

All parties involved agree Christian general is the problem, but none appears to have the means to get rid of him, writes Lara Marlowe

THE Arab League's special committee on Lebanon which met in Riyadh at the weekend concluded that the rejection by General Michel Aoun of the Taif agreement and his refusal to recognise the legitimacy of the new Lebanese Government constitute the main obstacle to national understanding as well as the principal reason for the dangerous military escalation in Lebanon.

The committee was referring to the agreement, reached by Lebanese MPs in the Saudi town of Taif, on an Arab League plan which gives more constitutional power to Moslems and provides for a partial Syrian withdrawal.

Yet 12 days after the election of Elias Hrawi as Lebanon's 10th president and the formation of his "national reconciliation government" neither the Arab League, President Hrawi, Syria, France, the US nor the Soviet Union has found the means to overcome Gen Aoun.

President Hrawi's announcement that he was ready to use military

force to evict Gen Aoun from the presidential palace at Baabda preceded a Syrian military build-up in Lebanon that sent diplomats scurrying and caused consternation in the corridors of Baabda. The threat and the muscle flexing have not yet led to what Gen Aoun predicted would be "the final battle".

President Hrawi has given two justifications for his failure to evict Gen Aoun in his specified time frame: "deference to diplomatic efforts" and the continued encampment of several thousand "innocent people around the former Lebanese army commander".

Little matter that the "human shield" which deterred the attack has come to resemble a permanent court fair, complete with tents, acrobats and vendors of doughnuts, plastic Lebanese flags, sandwiches and coffee.

But the real reason for President Hrawi's restraint has been more firmly rooted in the reality of Lebanon. Mr Hrawi had counted on Lebanese army troops serving under

Gen Aoun to rally to General Emile Lahoud, the new commander in chief he appointed on November 23. After the Christian units of the Lebanese army failed to recognise President Hrawi's legitimacy, the Maronite Christian president could not enlist the assistance of a foreign power - regarded as an enemy by many Lebanese Christians - to attack the very people whose loyalty he so needs to win.

To take the Christian enclave by force would mean an interminable inter-Christian war within Lebanon's larger Moslem-Christian conflict. It would undermine President Hrawi's claim to represent his fellow Christian Lebanese as well as pro-Syrian Moslems.

The US and the Soviet Union want to help President Hrawi, but like Mr Georges Sadeh, the leader of the Christian Phalange party, they supported the Taif agreement "as a peace agreement, not as the prelude to another war".

"We want no more dead in Lebanon. We are in complete agreement

on that," US President George Bush said after his discussions with Soviet President Mikhail Gorbachev off Malta.

Furthermore, the US, like the Soviet Union, knew that Gen Aoun would respond to a military offensive by shelling the Moslem population of West Beirut. Their joint approval of such an action would be condemned by the Vatican, Israel and France, which in August sent nine warships to the eastern Mediterranean to prevent the crossing of the "red line" in August.

The Syrians have in effect been paralysed by Gen Aoun's continued trump card: if foreign powers will not dislodge Gen Aoun, more blood-letting is likely to follow.

But the paralysis has also affected Gen Aoun. He has not

gained an inch of territory and can offer his supporters only intermittent general strikes, economic decay and encirclement. Gen Aoun sought international support for his cause. But in the end it took an Algerian Moslem diplomat to stop the artillery bombardments that Gen Aoun brought upon the Christian enclave.

The international community turned a deaf ear to Gen Aoun and supported first President Rene Moawad and then his successor and the Christian area of the Lebanon is too small, too vulnerable, to exist as a separate country, even if Gen Aoun dared to betray his stated aims and beg for the partition of Lebanon.

According to the pro-Syrian Lebanese newspaper *As Safir*, the US ambassador in Damascus, Mr Edward Djerejian, told President Hrawi's envoys that the US would intervene through a third party to obtain Gen Aoun's departure.

It is difficult to see who but the French could intervene in such a

manner. Mohammed Hussein Fadlallah, the spiritual leader of the pro-Iranian Hizbollah, may, in a certain sense, have been accurate when earlier this week he called France "the agent of the US in Lebanon".

The French Government has another problem. The Lebanese Maronite lobby is fashionable in Paris. Opinion polls show that a higher percentage of French than of Lebanese Christians support Gen Aoun. While President Mitterrand's Socialist government ostensibly supports the Taif agreement and President Hrawi, pressure at home cannot be discounted.

However, the French Government could be the instrument of Gen Aoun's departure. Mr René Ala, the French ambassador to Lebanon, is reported to have told a senior Lebanese official in East Beirut that the French Government would invite Gen Aoun to Paris until a timetable for a Syrian withdrawal from Lebanon could be established.

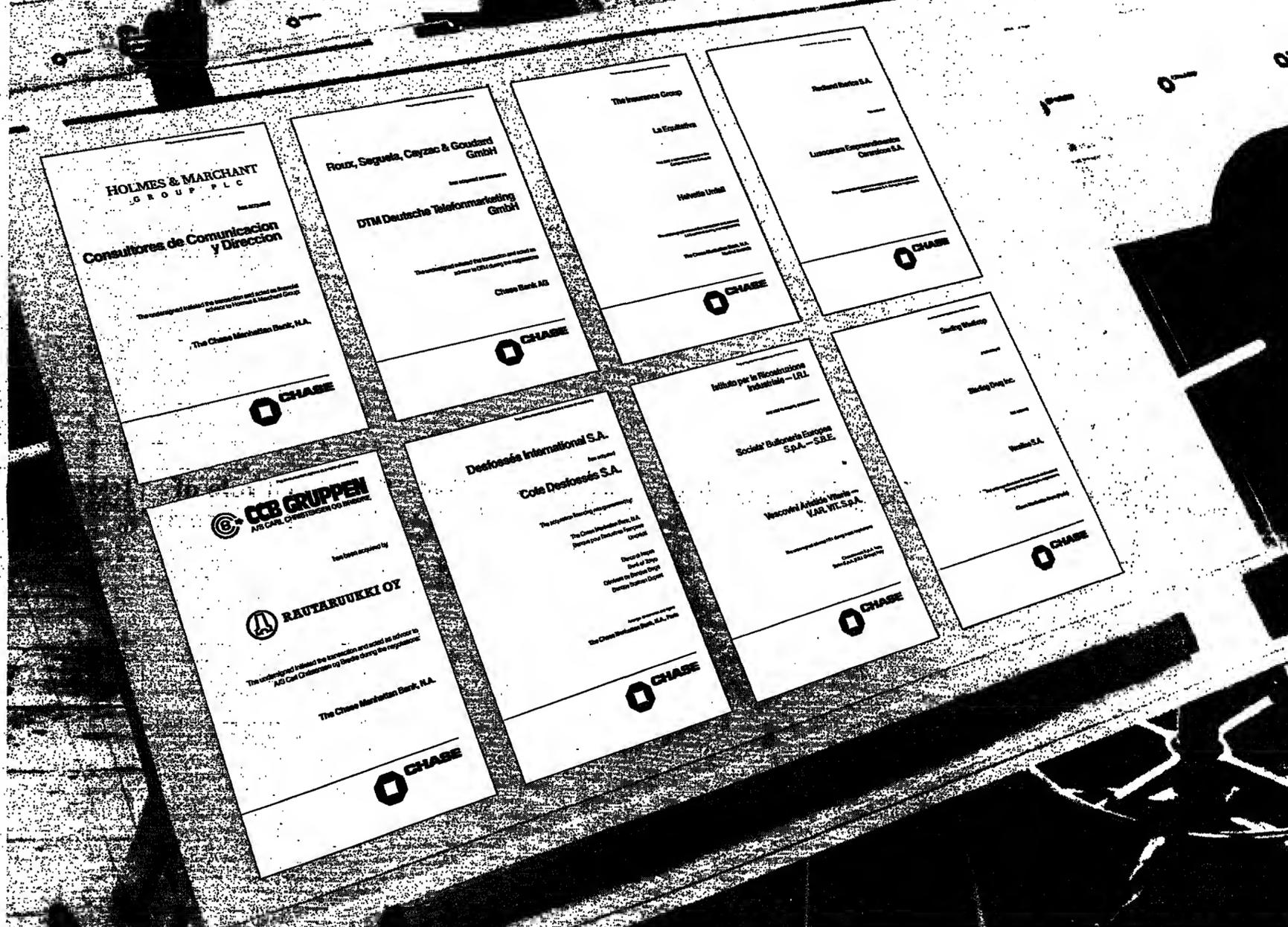
It is also said in Beirut that the

French might seek a UN Security Council resolution on the sovereignty of Lebanon and the withdrawal of all foreign forces from the country. Such a resolution would allow Gen Aoun to say he had at least obtained recognition of his demands.

In the meantime, Lebanon remains a virtual time bomb. President Hrawi said yesterday that he would give Gen Aoun two weeks to leave Baabda and threatened to resign if he failed to shift him. This appears to confirm reports that President Hrawi had received assurances from foreign diplomats that their governments would obtain Gen Aoun's departure.

But Gen Aoun has more than once risen from near defeat. If he does not create his own political party, accept an ambassadorial or a government advisory post - as many foreign diplomats hope - he may continue, as Prime Minister Selim el Hoss says, "an outlaw, leading a mutiny that will result only in partitioning Lebanon".

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WORLD TRADE NEWS

CoCom rocked by the crumbling wall

West's curbs on technology can't keep pace with changing world, writes David White

FOUR DAYS a week, year-round except for holidays, in an annex of the US embassy in Paris, works an organisation that...

KGB is omnipresent. Some fear that differentiation would only compound the bureaucratic complexity. The UK is among those favouring a shorter list...

broad spectrum. The US has held down the conservative end, with Japan and the UK not far away. They maintain that the restricted technology...

ultra-quiet submarine propelled. The US says the technology cost Moscow \$25m, but that it will cost the Pentagon many times more to regain its capability...

Mannesmann group wins telephone concession

By Hugo Dixon

THE West German Government plans to announce this morning that a licence to operate the country's second mobile phone network has been granted to an international consortium led by Mannesmann...

Airbus component order awarded to Indonesia's IPTN

By John Murray Brown in Jakarta

IPTN, Indonesia's state aerospace company, has won a component supply contract worth \$100m, with Airbus Industrie, the Toulouse-based European consortium...

Where the West draws the line

THE Soviet Union has enough data-processing capacity to mount a manned space programme. But it is not clear that it will try to prevent it obtaining some personal computers...

Western defence ministries will continue to militate strongly for limits in technology areas which they see having military applications. But opinions across the 17 - all of Nato except Iceland, plus Japan and Australia - cover a

The Soviets and their allies, they say, have produced only small quantities of computers compatible with IBM PCs. Indigenous computers are six to eight years behind. The lag is reckoned to be almost as long in minicomputers, longer in IBM-based mainframes, and 12-15 years in superminis and high-performance peripherals such as disc drives...

CoCom's more cautious members say it must steer clear of political gestures. But it is inevitable that both the scope of controls and CoCom itself will come increasingly into question.

Developed countries grapple with textile competition

By Alice Rawsthorn

THE textile industries in North America, Japan and Western Europe are experiencing a period of consolidation, in which companies are restructuring to cope with the more competitive climate in the international marketplace.

Consumers have seen buoyant spending in recent years. The pace of growth has slowed in the US and some Western European countries - such as the UK - since the middle of last year. But spending is still rising in most European economies.

With increased competition in the global market. The study identifies three trends that characterise the industries in the developed world: 1. Upgrading output towards value-added products; 2. Diversifying into a greater variety of product types and styles to meet consumer demand; 3. Using smaller, more versatile production units.

CoCom's more cautious members say it must steer clear of political gestures. But it is inevitable that both the scope of controls and CoCom itself will come increasingly into question.

CoCom's more cautious members say it must steer clear of political gestures. But it is inevitable that both the scope of controls and CoCom itself will come increasingly into question.

Philips plans HDTV tubes plant in US

By Laura Raun in Amsterdam

PHILIPS, the Dutch electronics giant, is planning to build a \$100m plant in the US where colour TV picture tubes and computer monitors will be made. Initially more than 900 jobs will be created with the plant's construction.

HDTV provides a much sharper picture than conventional TV and is expected to be the driving force behind the computer, semiconductor, consumer electronics and defence. In the past Philips has applied for US Government aid to promote HDTV technologies but no decision has been made.

Bomb kills 50 as Bogota anti-drugs war intensifies

By Sarita Kendall in Bogota

AT LEAST 50 people are thought to have been killed in a powerful truck bomb which shattered buildings for several blocks around the security police (DAS) headquarters in Bogota. The bomb exploded early yesterday morning, leaving a 30 foot deep crater outside the DAS offices.

established links between foreign mercenaries and cocaine traffickers. The director of Colombia's Civil Aviation Department has also confirmed that a bomb exploded in the passenger cabin of Avianca's Bogota-Cali flight on November 27. The jet's fuel tanks apparently caught fire and the aircraft disintegrated and crashed near Bogota, killing 111 people.

Dan Quayle plays the tough guy

By Lionel Barber

VICE President Dan Quayle continues to cultivate his image as the conservative alter ego of President George Bush in dealings with the Soviet Union. Two days after the Malta summit, Mr Quayle said in an interview that he saw "little change" in Soviet foreign policy. The US, he said, was dealing with a "totalitarian government" which wants to "create instability" in areas such as Central America.

Poisoned chalice of Brazilian presidency

Given the state of the economy, Lula may be better off losing, writes Ivo Dawmay

THE WORST thing that could happen to Mr Luis Inacio "Lula" da Silva on December 17, after an extremely successful electoral campaign, is actually to be elected as Brazil's new head of state. That, at least, is the view of some of the socialist candidate's supporters, now looking past the ballot on December 17 to a deeply troubling economic outlook.

lock is daunting, indeed. For the same stormy political landscape that will be so promising for his rival in opposition, looks like a potential Somme battlefield for a new president with fewer than 20 declared supporters in the 526-member legislature.

measures needed to confront an inflation rate forecast at well over 50 per cent a month. To reduce a budget deficit of, at the very least, 8 per cent of gross domestic product in operational terms, the new president will have to increase tax receipts, slash already stripped-down budgets, rush through privatisation measures and dismiss civil servants by the thousand.

another poll. In that case, he will have only two options: to attempt to use referenda to press his strategy or to create a genuine national party to fight for his programme at the ballot box. There is little time for either.

Such a system is alien to most Brazilians, who favour a strong president. One of the few slogans which Lula shared with his left-wing rival, Mr Leonel Brizola, is that neither wanted a presidency reduced to the pitiful prerogatives of "The Queen of England".

Mulford forecasts \$35bn fall in US trade deficit

By Lionel Barber

THE US trade deficit will fall "substantially" this year but the Bush administration is concerned about whether it can continue to be cut. Mr David Mulford, Treasury Under-Secretary, said yesterday.

against the West German mark. He noted that the dollar had fallen by only 2 per cent against the yen. There was no need at the moment to call for a meeting of the Group of Seven finance ministers to discuss exchange rates, he said.

Barlow Clowes scandal prompts row over UK colony

By Canute James in Barbados

THE FALLOUT from the Barlow Clowes investment scandal has prompted the chief minister of the British colony of Montserrat, to travel to London this week in an effort to prevent a change to the island's constitution.

Barlow Clowes scandal prompts row over UK colony

By Canute James in Barbados

shore banking in British territories. The irregularities were discovered by officers from Scotland Yard and from US and Canadian police agencies. The licences of several banks were revoked and six Americans were charged with conspiracy to defraud.

Barlow Clowes scandal prompts row over UK colony

By Canute James in Barbados

members of the Legislative Council" in Montserrat. They asked the British government to "reconsider the imposition of the proposed constitution".

Barlow Clowes scandal prompts row over UK colony

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The constitutional row has raised questions over the future of Montserrat, and whether Mr Osbourne's administration will seek political independence for the island. The chief minister said a year ago: "Make no bones about it, I am a supporter of independence for Montserrat."

Barlow Clowes scandal prompts row over UK colony

By Canute James in Barbados

He has received support from the governments of six neighbouring independent islands. At a regional summit, the prime ministers of St Lucia, St Vincent, Grenada, Dominica, Antigua and St Kitts said the proposed constitutional changes "reduced the authority vested in the elected

Barlow Clowes scandal prompts row over UK colony

By Canute James in Barbados

members of the Legislative Council" in Montserrat. They asked the British government to "reconsider the imposition of the proposed constitution".

# Toyota to buy electricity direct from PowerGen

By Maurice Samuelson

TOYOTA'S European car plant near Derby is to be Britain's first big industrial site to benefit from competition in the post-privatisation electricity industry.

The £700m Midlands plant, due to start production in late 1992, will buy its power directly from PowerGen, the larger of the two generating companies to succeed the Central Electricity Generating Board, rather than as a customer of the local electricity board which has previously enjoyed a monopoly.

The deal is to be announced today by Derbyshire County Council, which was responsible for persuading Toyota to build its plant near Derby. The authorities acted as Toyota's agent in talks over the power contract.

The Toyota plant will be built over the next 2½ years and eventually employ 3,000 people and make 200,000 cars a year for sale throughout Europe.

With its electricity demand expected to reach 40MW the plant could eventually spend about £10m a year on electricity.

The site is typical of the large-scale energy consumers being courted by the successors of the Central Electricity Generating Board - PowerGen

and National Power - and by the distribution companies.

National Power has so far appeared more aggressive in its quest for direct sales contracts. It is running a £1m advertising campaign to promote direct sales, has sent draft contracts to more than 500 potential customers and hopes to announce several deals when privatisation officially commences on April 1 1990.

Scope for such business will be limited at first, to cushion the impact on the proceeds of the area boards and to offer a clear field for independent new generating companies.

For the first four years, the big two generators will be able to compete only for contracts for more than 1MW and for the next four years for contracts over 100kW.

They will also be limited to supplying no more than 15 per cent of the demand in any one distribution company's areas in the first four years, and 25 per cent in the second four years, after which limits will be waived.

However, the electricity industry's regulator is expected to come under pressure to relax these limits from big industrial users seeking the cheapest possible contracts for wholesale supplies of power.

# Pearson reorganises senior management

By Raymond Snoddy

PEARSON, the publishing, banking and industrial company which owns the Financial Times yesterday announced a reorganisation of its management and the appointment of Mr Frank Barlow to be managing director and chief operating officer.

Mr Barlow, who has worked for the Pearson group for 22 years, is now chief executive of the Financial Times, where he has presided over a transformation in the profits of the newspaper. When he became chief executive in 1983 the Financial Times made a profit of £1m, although this was influenced by a 10-week strike. This year the paper is expected to make £20m profit.

Mr Barlow said yesterday the reorganisation meant that Lord Bleakham, who remains chairman and chief executive of Pearson, would be able to concentrate more on the future direction of the group while he would concentrate on the day-to-day operations of the divisions.

Mr Barlow will take on his new role, a re-creation of a post held by Mr John Hale from 1983-86, on January 1.

Mr David Palmer, a former

news editor and deputy editor of the Financial Times and more recently managing director of St Clement's Press, the paper's printing division, will succeed Mr Barlow as chief executive of the newspaper.

The appointment of Mr Barlow will be seen as a small but significant change in the direction of the company. In part it reflects the fact that Pearson has been getting larger through acquisitions in the publishing industry.

Mr Barlow is also a grammar school boy from Barrow-in-Furness, north-west England, who qualified as an accountant in a company that has traditionally been run by members of the Pearson family and a generous sprinkling of Old Etonians.

More important, he is a newspaper manager who will be taking over the day-to-day running of a conglomerate whose interests range from merchant banking, fine china and oil services as well as publishing, which has been coming more to centre stage.

Mr Barlow, 59, said yesterday: "I have always always taken the view that I could run an animal feed factory if I had to."

# In Brief Shell chief selected as rail chairman

Mr Bob Reid, chairman and chief executive of Shell UK, is to succeed Sir Robert Reid, his unrelated namesake, as chairman of British Rail, widely regarded as one of the most difficult jobs in the country, writes Kevin Brown.

Mr Cecil Parkinson, Transport Secretary, ended weeks of speculation by announcing that Mr Reid would join the BR board as chairman-designate on January 1.

Mr Reid, 55, is a lifelong oilman who has spent 33 years with Shell. The son of a Scottish butcher, he overcame the loss of his right arm to become a successful golfer, and is regarded as a tough and determined manager.

Mr Reid told the Financial Times he believed it would take a year to get to grips with BR. But he denied that he had been selected as a "tough outsider" who would shake up the railway and prepare it for privatisation.

# Ambulance moves

The Association of Professional Ambulance Personnel is set to launch a programme of industrial action, in a sharp turnaround of its decision just 24 hours earlier to back the Government's 9 per cent pay offer. The move will scupper government plans to use APAP to break deadlock in the 12-week long ambulance dispute.

# Glaxo reassesses

Glaxo, Britain's biggest drugs company, is reassessing plans to build a £500m research centre at Stevenage, Hertfordshire, after estimated costs have mounted steeply. It said the centre would go ahead but construction schedules were being revised.

# PMM fees up

Peat Marwick McLintock, accountancy and consultancy group, reported fees of £325m in the year to 30 September, up 24 per cent on the previous year. UK growth came in a year when fees in the international grouping of which it is a part, KPMG, moved ahead by just 10 per cent to \$4.5bn.

# Guinness case date

The trial of Mr Ernest Saunders, former chief executive of Guinness, and others charged with criminal offences in the Guinness affair has been put back until February 5. The hearing had been due to start on January 8.

# Daily Mail action

Journalists at the Daily Mail newspaper have voted for industrial action over the company's plans to end recognition of the National Union of Journalists and bring in a system of individual contracts.

# Learning the wider lessons of Lockerbie

Jimmy Burns reviews a report on the prospects of preventing terrorism

The disclosure this week that the Swedish Authorities working closely with Scottish detectives have identified a suspect in the bombing of the Pan Am 747 last December has raised hopes of a breakthrough in the investigation into the disaster.

And yet with the first anniversary of the Lockerbie bombing just a fortnight away, the development has brought limited comfort to those who have been drawing wider lessons from the fatal explosion which killed 270 people.

In a paper published yesterday by the Independent Research Institute for the Study of Conflict and Terrorism, Professor Paul Wilkinson, widely regarded as an authority on terrorism, argues forcefully that the world's civil aviation security system is so riddled with organisational and technological shortcomings as to make further 'Lockerbie' difficult to prevent without concerted political action.

Professor Wilkinson writes:

"The brutal fact is that governments lack the will to set aviation security high on the domestic policy agenda, let alone the agenda of international organisations."

In the aftermath of the Lockerbie disaster, the British and US Governments launched a joint initiative through the International Civil Aviation Organisation's (ICAO) Aviation Security Panel to improve international co-operation against airline bombings.

Britain introduced specific measures such as new standards for access to employers at UK airports, screening of all hold luggage on high-risk flights, and closer checking of all electronic equipment taken on board aircraft.

The US for its part focused part of its efforts on research and development to produce effective new security technology capable of detecting plastic explosives, such as the prototype thermal neutron analysis (TNA).

According to Professor Wilkinson notwithstanding these

"modest and welcome reforms", it is "clear that the steam appears to be going out of the campaign for improved aviation security."

In recent weeks the demands by relatives of the victims of the Lockerbie disaster into an independent investigation into security at British airports has made little headway with the Government.

Ministers are believed to have argued that such an investigation would not only cut across the current criminal investigation being carried out by the Scottish police but would also risk playing into the hands of terrorists by publicly exposing details on security matters.

In the meantime public debate surrounding the Lockerbie disaster has increasingly been overshadowed by reports of continuing rivalries between intelligence services and the circulation of misinformation by some of those most closely involved in the disaster.

Before this week's develop-

ment, Scottish police are believed to have complained about the lack of co-operation in West Germany, while the role of other countries in the affair has been made increasingly murky by a succession of unsubstantiated allegations.

Professor Wilkinson's report identifies "effective co-ordination, command and control of all aspects of counter-terrorism policy" as one of the key requirements for an effective international aviation security system.

He also urges a much greater investment in, and distribution of, a combination of high technology equipment of the kind that might have helped avert the Lockerbie disaster, together with enhanced training of security staff.

The TNA machines, which are being researched by the US, are aimed at detecting explosives more accurately by "ombarding" baggage with low-energy neutrons and identifying the characteristic signatures emitted by the nitrogen and hydrogen present in the

explosive chemicals. Other techniques include chemiluminescent sniffing machines based on vapour analysis of the air surrounding passengers.

Within the aviation industry objections have been privately raised to some of these techniques both on grounds of costs and practical inconvenience to passengers.

Professor Wilkinson insists, however, that in terms of the extra investment needed, "we are talking about a tiny fraction of the overall manufacturing and operating costs in the aviation industry."

And he questions whether new technology-based multiple checking systems would need to be any more time-consuming and frustrating than current security checks.

On the contrary "the passenger would have the satisfaction of knowing that safety... had been greatly enhanced."

The Lessons of Lockerbie. Paul Wilkinson. RISCT, 136 Baker Street, London W1M 1FH

# Property group in novel reorganisation

Paul Cheeswright, Property Correspondent

BRITISH LAND, the fifth largest UK property group, yesterday announced a corporate reorganisation, unprecedented in the sector, which seeks to provide for its shareholders a means of realising the hidden value of their assets.

It is establishing a new company, New British Land, to take over £239m worth of assets and proposes to sell the rest of its £1.45bn property portfolio, distributing the proceeds to shareholders through dividend and repurchase of their shares.

Immediately British Land shareholders are being offered, as a dividend, 13 shares in the new company for every 40 they hold in the old, and a chance to take part in a tender for the repurchase of 10 per cent of British Land's equity at a price of 430p a share.

British Land has been concerned that its shares, like those of other property investment companies, have been trading at a discount of 40 per cent to their net asset value. The scheme is designed to realise the value of the assets and hence compensate for the poor market performance of the shares. The immediate effect

was to lift the British Land share price in heavy trading to 405p, a gain on the day of 46p. But shares in other property investment groups like Land Securities and REPC were also heavily traded.

Brokers were complimentary about the scheme but had mixed feelings about its effects. Charterhouse Tinley said it was a decent deal for British Land shareholders. Barclays de Zoete Wedd termed it bright and well worked out.

The immediate question from the market was the extent to which the British Land scheme might put pressure on other groups to enlarge their dividend payments through the sale of buildings.

The timing is related to the presence on the market of foreign institutions, mainly Japanese, ready to buy investment properties at low yields.

But British Land has itself been in the market. The documents of its new scheme reveal that it has done a second sale-and-leaseback deal with J. Sainsbury on 11 supermarkets valued by Donaldsons, chartered surveyors, at £38m.

Out with the old: on with the new. Page 26; Lex, Page 15

# Judges uphold Irish broadcasting ban

By Raymond Hughes, Law Courts Correspondent

THE GOVERNMENT'S ban on radio and television interviews with members of the Irish Republican Army, Sinn Fein - its political wing - the Ulster Freedom Fighters and other Northern Ireland organisations has been upheld by the Court of Appeal.

Lord Donaldson, the Master of the Rolls, senior member of the judiciary, and two other appeal judges yesterday dismissed a challenge by six broadcasting journalists and a representative of the National Union of Journalists to the High Court's refusal to rule unlawful directives issued last year by Mr Douglas Hurd, then Home Secretary.

The journalists were given leave to appeal to the Law Lords, the highest domestic court of civil appeal. If they lose there, they may take the case to the European Court of Human Rights in Strasbourg, since part of their argument is that the ban breaches Article 10 of the European human rights convention, which guarantees freedom of expression.

The ban prevents the BBC and Independent Broadcasting Authority from broadcasting directly words spoken by peo-

ple representing specified organisations, or words which support, solicit or invite support for those organisations.

It permits indirect reporting - presenters can read out what has been said by someone whose interview cannot be broadcast.

Lord Donaldson said that perhaps the most startling feature of the ban was how little it restricted the supply of the "oxygen of publicity" to the specified organisations. Because reported speech was allowed, those affected were in no worse a position than if they had access to newspapers with circulations equal to the programmes audiences.

"If the directives are to be criticised at all, it must be on the basis that any use of the power will, or may, damage the reputation of the British broadcasting authorities for total independence from the government of the day and that this price is not worth paying for so small an effect," Lord Donaldson said.

He rejected the journalists' argument that the Home Secretary had acted unreasonably or perversely in issuing the directives.

# Stevens team makes number of arrests

By Our Belfast Correspondent

A SUBSTANTIAL number of people were arrested in Northern Ireland yesterday by the Stevens inquiry team which is investigating allegations of links between loyalist paramilitary organisations and elements within the province's security forces.

It is understood a number of members of the Ulster Defence Regiment, were among those detained.

In Belfast a statement released by the Royal Ulster Constabulary said: "A substantial number of people were arrested this morning under the Prevention of Terrorism Act and are assisting the Stevens inquiry team in investigations into serious crime."

Mr John Stevens was appointed by Mr Hugh Amisley, RUC Chief Constable, to head an inquiry into alleged leaks of security documents to loyalist and paramilitary organisations.

Mr Peter Brooke, Northern Ireland Secretary, said yesterday he detected a willingness among constitutional parties in N Ireland to try to find grounds for political progress.

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by Tabuchi.

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UK NEWS

# Ripples from the BAe whirlpool

Charles Leadbeater looks at the Rover privatisation row



Roland Smith: the Rover controversy is just part of the political fabric that has clothed the company since 1981

**T**HE political currents that swirl around British Aerospace occasionally produce a whirlpool which threatens to suck in others involved with the company.

Such a whirlpool developed last week when it emerged that the Government had made secret concessions to BAe to guarantee completion of the privatisation last August of Rover, the former state-owned volume car manufacturer.

For most company chairmen, such a revelation would be enough to cope with. But for Professor Roland Smith, BAe's chairman, the Rover controversy is just part of the political fabric that still clothes the company in spite of its privatisation in 1981.

● The Rover affair follows an National Audit Office report on the privatisation of Royal Ordnance, which criticised the Ministry of Defence for significantly understating the value of the land BAe bought. The company has since acquired Arlington Securities to help manage its growing property development portfolio.

● In the increasingly turbulent defence industries BAe's strategy runs straight through the corridors of government before it can reach the market. These issues include the restructuring of the European defence electronics industry, doubts about the financing of a \$15bn arms deal in Saudi Arabia and the uncertain outlook for defence spending in the wake of the lifting of the Iron Curtain.

● BAe stresses the development of its civil businesses, which include satellite technology and personal telecommunications. Most significant is its 20 per cent stake in Airbus Industrie, the European aircraft manufacturer.

This is another area where Prof Smith is juggling commerce and politics. BAe wants Airbus to adopt a more commercial approach independent of government. It has set itself against proposals floated by the West German and French Governments to set up a second final assembly line.

Yet it is also keen to squeeze as much as possible support from Whitehall.

In the past few weeks, BAe's approach has been thrown in doubt from within its own ranks. Last month Mr Adam Brown, a BAe employee who

was Airbus vice-president in charge of strategy, resigned after criticising the British company's attitude towards the project.

He is expected to be followed shortly by Mr Robert Smith, who is not expected to return to BAe after serving only seven months as Airbus's finance director.

If that was not enough, the company is in the midst of strikes at its Kingstou and Chester plants which could pitch it into further controversy.

The strikes are threatening to delay components deliveries to its partners in the Airbus programme.

Should BAe concede to the unions' claim for a shorter working week, collective bargaining at other manufacturers would be quickly affected at a time when ministers are becoming increasingly agitated that unit labour costs are rising too fast.

So in virtually every direction, BAe's business takes it into politics. That is the backdrop against which the Rover affair leapt to centre stage.

The affair is the product of two pressures.

First, the Government was determined to dispose of Rover. But it preferred a politically acceptable buyer.

It did not want to sell to another car company, such as Ford or VW, for fear that Rover plants, dealerships and components suppliers would be rationalised.

Second, BAe wanted to diversify away from defence. Strong doubts remain over claims that Rover may teach its parent about mass manufacturing, while BAe can offer research in advanced materials and design.

However, in the short term the acquisition strengthened BAe's balance sheet, making it better able to face restructuring in the European defence industry and facilitating the financing of work in progress on long-term defence projects and the Airbus programme.

But as a letter from Prof Smith to Lord Young of Grafton, then Trade and Industry secretary, during the negotiations makes clear, BAe also had politics in mind.

In the letter, which was leaked this week, Prof Smith said there was growing concern on his board "regarding a number of issues affecting the relationship between the company and the Government both in the civil and military fields."

He looked forward to "demonstrable evidence of government responsiveness to that concern" if BAe accepted the terms of the Rover sale.

The affair raises difficult questions for both BAe and the Government.

Sir Leon Brittan, EC commissioner for competition policy, is preparing to extend the Commission's attack on state aid to industry.

Commission officials are

examining the NAO report on the sale to see whether the net cash injection into Rover of £422m (£662m) should be reassessed in the light of the company's undervaluation. It is much more likely that he will take action, possibly by the end of the year over at least part of the secret £38m.

If this was added to the Rover sale price, BAe would be presented with a sharp dilemma.

Prof Smith almost scotched the deal just hours before Lord Young was due to announce it. The extra concessions were supposed to have provided the margin which entitled BAe back into the deal.

To remain consistent BAe cannot simply hand over the money. It must argue that the concessions tipped the balance in securing the deal.

Yet it is also unrealistic to suggest that the deal may retrospectively unravel. If the £38m has to be paid back BAe has already gained £120m from selling its stake in Intel, Rover's software house, and part of its stake in DAF, the Dutch commercial vehicle manufacturer.

Surplus sites are yet to be sold, but will be added to Rover's recent decision to stop car making on the two Cowley sites in Oxford in the early 1990s, a total of more than 80 acres.

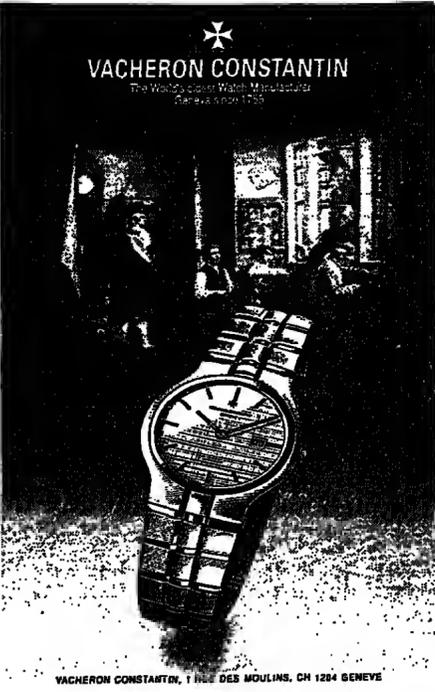
Pulling out would jeopardise BAe's links through Rover with Honda, the Japanese car manufacturer.

Negotiations on Honda taking a 20 per cent stake in Rover's vehicle operations and Rover taking a fifth of Honda's manufacturing subsidiary in the UK are close to conclusion.

The credibility of the diversification strategy would also be severely undermined if the Rover deal was scrapped for the sake of a small increase in BAe's debt.

But the dilemma will be political rather than financial. The real questions hanging over BAe are the prospects for healthy profits at Rover and Airbus and the long-term outlook for its defence businesses in a changed internal climate, not a relatively small dent in its balance sheet.

Prof Smith may peddle BAe away from the whirlpool. It is going to be more difficult for the Government to pull to safety.



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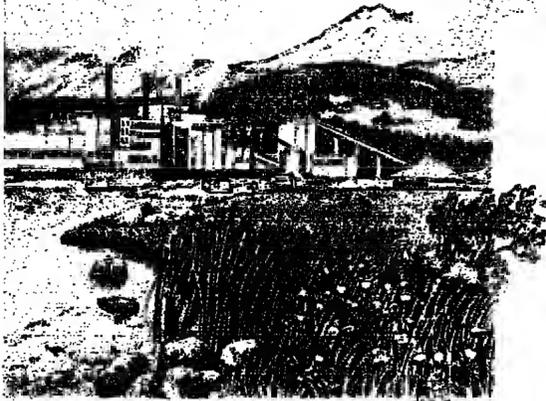
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UK NEWS

Taylor Woodrow link for capital's biggest residential scheme by Japanese  
**Mitsui in London property venture**

By Andrew Taylor, Construction Correspondent

MITSUI Construction of Japan is to partner Taylor Woodrow, the UK property and construction group, in one of the largest residential developments to be undertaken in central London.

The development on the site of St Mary Abbots Hospital in Kensington, in London's West End, will have a completed value of at least £125m. It will be the largest residential scheme to be undertaken by a Japanese developer in the UK.

At least two other Japanese groups and a West German developer, as well as several British groups, sought to partner Taylor Woodrow on the project.

Japanese construction groups such as Kumagai Gumi and Ohbayashi, which this year acquired the Financial Times' former Bracken House headquarters building in the City of London, have become active in the UK commercial property market, but have invested little in residential property.

Mr Naoshi Onizawa, vice president of Mitsui Construction, in London this week, said the joint venture with Taylor Woodrow marked the company's first property investment in Europe. It had previously made investments in the US, Australia, Taiwan and Singapore.

Mr Onizawa said the outlook for the UK economy had improved during the past decade. Britain provided a stable economic and political platform for Japanese investors. It also provided a natural springboard for Japanese companies

seeking to invest in Europe.

The approach of the single market in 1992 would also generate increased business for developers and construction companies in Europe.

Mitsui is forming a separate joint venture with Taylor Woodrow to develop a 16m office building in Gray's Inn Road in central London. It also discusses the possibility of Taylor Woodrow becoming involved in an office development in Tokyo.

The first phase of the Kensington development will provide more than 100 apartments, 8 penthouse flats and 45 houses on just over five acres. Prices are expected to range from £190,000 for a one bedroom apartment to about £2m for a five bedroom house. There will be extensive underground car parking with at least two parking spaces for each house and one for each flat. Profits on the first phase are expected to be around £20m.

Taylor Woodrow and Mitsui have an option to acquire and develop the remaining four acres of the hospital most of which will be moved to new buildings in Fulham Road. The value of the scheme, if the rest of the site is developed, will be more than £200m.

Central Kensington is one of Europe's most expensive residential markets. Sales in the area have remained strong despite the collapse of other parts of the housing market in London due to high UK interest rates.

**Sellafield expects W German spent N-fuel contracts**

By David Fishlock, Science Editor

BRITISH Nuclear Fuels expects shortly to sign new contracts worth some hundreds of millions of pounds with the West German electricity industry, for reprocessing spent nuclear fuel at its Sellafield factory in Cumbria, north-west England.

The contracts, to treat German fuel during the first decade of the next century, may be signed before the end of the year, senior company officials predicted yesterday.

BNFL announced orders for another 800 tonnes of reprocessing during the 1990s, won from its existing customers in Japan and Western Europe who are funding its £1.85bn thermal oxide reprocessing plant (Thorp) at Sellafield.

Mr Christopher Harding, BNFL chairman, said the new reprocessing orders "effectively answer those who claim the market for reprocessing has disappeared".

In a reappraisal of Thorp's design two years ago, BNFL concluded that its capacity would be 700 instead of 600 tonnes a year, and set out to market the extra 100 tonnes of capacity over the first decade of Thorp's life, from 1992.

The new German business arises from a decision earlier this year to abandon the planned Wackersdorf reprocessing plant, expected to serve from the late-1990s, and negotiate instead for reprocessing to be done in France and Britain.

BNFL is also in discussions with the US Department of Energy, over the use of Sellafield technology to manage nuclear waste problems in

major US Government nuclear facilities.

Mr Harding, just returned from the US, puts the potential market for radioactive clean-up of government installations as high as \$10bn.

With three major radioactive waste management facilities totalling over £1bn investment nearing completion at Sellafield, it is making a confident case in an area where the US has achieved little in 25-30 years.

Mr Harding said he believed BNFL had already solved a lot of the clean-up problems facing the US military nuclear sites.

It has set up a US company, BNFL Inc., to be staffed mainly by Americans, and plans to team up with US companies to offer the US Energy Department its technical expertise.

Mr Harding stressed, however, that BNFL was not seeking US reprocessing contracts. He saw no sign of the US Government lifting its ban on reprocessing of civil nuclear fuel.

Reporting BNFL's annual results, he said it had been a good year, with turnover up in real terms, a satisfactory increase in operating profit, and a 26 per cent increase in exports to a record £168m. However, they gave only a modest return on assets of less than 5.5 per cent, he said.

The government's decision not to privatise the nuclear stations had advantages for BNFL, inasmuch as the Magnox stations - of which it operates two - are expected to continue for longer than previously expected to require its fuel services.

**Vauxhall model topples Ford from sales league**

By Kevin Dore, Motor Industry Correspondent

VAUXHALL, the UK subsidiary of General Motors, last month ousted Ford from the top of the list of best selling UK car models for the first time since February 1983.

For the first 11 months of the year three Fords, the Escort, Sierra and Fiesta, have kept their stranglehold, but in November the Vauxhall Cavalier outdid its rivals with sales of 11,744 against 10,486 for the second-placed Ford Escort.

New car registrations dropped last month to 143,823, down 4.97 per cent on November last year, according to figures from the Society of Motor Manufacturers and Traders.

The volume of UK new car sales has now fallen in three of the last five months as the market weakens under the impact of higher interest rates and the slowdown in UK domestic demand.

Sales for the first 11 months at 2,214,175 were still 4.25 per cent higher than a year ago and are certain to produce a fifth successive record year.

The latest SMMT forecast, however, sees UK new car sales falling next year to 2.1-2.2m.

Imported cars captured 56.49 per cent of the UK market in November and 57.07 per cent in

**Links to inner-city areas improved by Government**

By Hazel Duffy

NINE ministers are being assigned to inner-city areas in an effort to strengthen links of communication between government and cities, and to co-ordinate government inner city programmes.

The new responsibilities will be in addition to the ministers' existing portfolios. They include Mr David Hunt, Environment minister with responsibility for inner cities, who made the announcement yesterday to Business in the Cities conference, and Mr Douglas Hogg, Mr John Patten, and Mr Tim Sagar.

The Government plan is expected to appeal particularly to business in the cities, which will be able to go direct to ministers rather than through the civil service hierarchy.

The Government's main concern is to get business more involved in its programmes. That includes companies based in Britain's big cities and developers involved in inner urban areas.

Mr Hunt's plan is a tacit admission that the system of City Action Teams has failed to come to grips with the problem of co-ordination of government programmes. The teams are drawn from civil servants in the three main departments working in the inner cities - Employment, Environment, Trade and Industry.

**Thatcher urged to soften stance on Social Charter**

By Ralph Atkins

FURTHER pressure on the Government to weaken its opposition to the proposed European Social Charter has come from three sources including a report today by a House of Lords committee.

The latest version of the charter should be used as "a basis for negotiation," the Lords report says.

It follows a research paper from the Conservative think-tank Bow Group urging the Government to adopt a more positive approach to the charter.

At the same time Conservative members of the European Parliament warned Mrs Margaret Thatcher that she is in danger of playing into the opposition Labour Party's hands.

Lord O'Hagan, on behalf of the 32 Tories in the European Parliament, said "Mrs Thatcher should sign the charter declaration. It is a legal commitment to nothing. Then the Government can fight its individual proposals point by point when they are produced."

The attacks come as Mrs Margaret Thatcher prepares for the European Council summit in Strasbourg starting tomorrow.

The Social Charter - and Britain's resistance towards it - is expected to be high on the agenda.

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## MANAGEMENT: Marketing and Advertising

Britain's brewers are preparing for more competitive times with the restructuring of the industry set in train by the Monopolies and Mergers Commission.

As a result of government legislation, over the next three years some 11,000 of the country's pubs will be freed from their ties to individual brewing companies. By 1993, at least 46,000 of Britain's 80,000 pubs will be free houses, able to sell what beers they choose to their customers.

"The pub trade will become like any other retail trade," says Miles Templeman, group marketing director of Whitbread, the UK's fourth largest brewer. "For us, that means the pressure on brands will be greater, service levels to the customers will have to be higher, and sales forces more disciplined."

Whitbread surprised City analysts by electing to stay in the business after the MMC shake-up. Despite its 247-year history as a brewer, the company had been expected to divest its brewing operations to concentrate on its increasingly successful activities as a hotels, restaurants and pubs operator.

Peter Jarvis, group managing director, admits that such a move was considered. But the Government compromise on the MMC report means that Whitbread may retain all but 2,120 of its 6,285 pubs - apparently helped to swing the argument against it.

Last month, Whitbread renewed its commitment to its traditional business by putting up for sale its wines and spirits division, worth an estimated £500m, and by paying

## The UK pub trade

## Whitbread re-focuses its range

Philip Rawstone explains the brewer's strategy in the wake of the government's monopolies report

£50.7m for Boddington's regional brewing operations.

But the company recognised that if it were to compete successfully as a brewer in the post-MMC environment, the business would have to be given a sharper marketing focus.

As the first step towards that end, Whitbread has restructured its management organisation to create a new beer division, which covers the previously separate brewing, marketing and selling activities.

Templeman, who will take over as managing director of the division early next year, says: "There is a big cultural change to drive through the division to give it the necessary focus that puts the customer first."

The aim is to ensure that the marketing principles that have guided the company's approach to the competitive take-home trade in England and Wales will be asserted in dealing with the much larger pub trade.

Whitbread brands are among the market leaders in the take-home trade in England and Wales - and Templeman's sales director comes from that side of the business.

A separate division will handle the process of turning some 2,120 of Whitbread's tenanted pubs into free houses, no longer tied to the brewer, a process that may be complicated



Splendid. We're always on the lookout for expensive ingredients.

by the group's stakes in several regional brewers, which also have tied houses that could be added into Whitbread's total. If it comes to a choice between reducing those stakes or freeing more pubs, the company seems likely to opt for keeping the pub ties.

Whitbread's estate of 1,600 man-

aged pubs will also be run separately, forming another division alongside those which will run the rest of the group's retailing operations: restaurants such as Pizz Hut, Beefeater Steak Houses and TGI Fridays, and hotels and other leisure outlets.

Templeman can thus concentrate on the development of the portfolio of brands with which Whitbread increased its overall share of the UK beer market during the past year to around 13 per cent. "Initially," he says, "that will mainly be a case of marketing and selling what we have even better."

He foresees no radical change in marketing and advertising style. "Stable agency relationships and consistency of style and message are important," he says. Whitbread was a founder-client of its agencies - Lowe Howard Spink, Bartle Bogle Hegarty and Paragon Communication.

The group raised its spend in consumer marketing by £7m in 1988 and in line with inflation this year. Much of it is being directed to the lager half of the beer market.

The budget for Heineken lager, which has been producing under licence from the Dutch brewer in the UK for 25 years, was raised to £11m

last year and advertising agency, Lowe Howard Spink, has refreshed the message with a new theme: "Only Heineken Can Do This." Templeman says the very familiarity of the brand was becoming a disadvantage. "It was seen as less exciting than some of the newcomers."

But Heineken holds the number two spot in the total lager market (Carling Black Label is number one in the UK) and is the leader in the take-home trade in England and Wales. "We shall drive it hard," Templeman promises.

With Stella Artois, the Belgian lager, Whitbread has the brand leader, too, in the premium, strong lager sector. Again brewed under a long-established agreement, its annual sales of more than 500,000 barrels are higher than many standard lagers.

Apart from advertising, both Heineken and Stella are supported by sponsorship - a marketing tool that Whitbread first adopted 30 years ago with horse racing to improve its corporate image and has since extended to its brands. Stella Artois has sponsored tennis for 11 years; Heineken has supported ice-hockey for six years.

Whitbread also includes Kaltenberg and Moosehead Canadian lager

in its portfolio and is now testing Heineken Export in the south of England.

On the ales side, Whitbread Best Bitter has recently increased share and volume in a declining market. A new arrangement to distribute Marston's Pedigree, and the acquisition of Boddington's, analysts agree, puts the group into a good position to take advantage of the post-MMC rule that all tied houses must stock a "guest" cask-conditioned ale.

Those two brands, together with the recently-launched cask-conditioned Whitbread Best, are buttressed by a range of 15 regional brews - including Flowers in the west and south-west, Fremantle and Wethered in the south-east, Trophy and Castle Eden in the north-east.

Whitbread White Label commands a massive lead in the low-alcohol bitter market; and Murphy's Irish stout, brewed under licence, has shown rapid growth since its introduction in 1988. Murphy's is already a sponsor of golf, and the regional advertising with which it was launched will be broadened into a national campaign.

More new products may be added to the portfolio, but support for the current brands in an increasingly competitive climate implies heavier pressure on profit margins from higher marketing costs.

Templeman agrees that it will be vital for his division to maintain the long-term drive that has enabled Whitbread to reduce costs through rationalisation, reductions in beer losses during processing, and improved training - over the past five years.

## Short-term effect of earn-outs

IN RECENT years the marketing services sector has been awash with acquisitions as the publicly quoted marketing companies have bought other businesses; and almost all the acquisitions have involved earn-outs.

Earn-outs are the mechanism whereby one company agrees to buy another for a sum composed of an initial consideration and a performance-related payment - or earn-out - phased over a period of time.

Obviously the earn-out looks like an ideal device - especially in a volatile industry like marketing - in that it reduces the risk of one company paying an inflated sum for another. But a new study from Spicer & Oppenheim, the accountants, shows that, although earn-outs are still seen as attractive, they can also depress the performance of newly acquired companies.

One of the main disadvantages is that earn-outs can encourage the vendor of a business to maximise short-term profits - in order to pump up the performance-related payments - sometimes at the expense of long-term growth.

Another disadvantage is that the employees who did not benefit from the sale of the business might feel resentful. There may also be problems when the earn-out period comes to an end and the vendors leave.

Spicer suggests that any company involved with earn-out acquisitions should "manage in advance" - through close monitoring and board representation - and that they should plan ahead for the vendor's departure.

As for the vendors, the study shows that they tend to be in favour of earn-outs, although many were over-optimistic about the amount of money they would receive.

Some vendors cited "loss of control" and "pressure for short-term results" as disadvantages. But the main advantage to them was, not surprisingly, "gain in wealth" - in other words, money.

Earn-out Agreements - Their Impact on Marketing Services Companies is available from Spicer & Oppenheim, 13 Bruton Street, London W1A 2AZ, 065.

Alice Rawsthorn

Do you just sell big lumps of machinery or can you also market them?

Caterpillar, the US construction machinery and heavy equipment maker, has brought a new slant to this issue by offering its dealers a sophisticated computer "tool" which is both an aid to efficiency and a slightly gimmicky marketing ploy.

The company is offering its dealers a software package which will help them identify the exact type of equipment a customer wants. This is available in the US to help people make the right choice of Caterpillar engines for on- and off-highway trucks and for boats. It is also being introduced into the UK and the rest of Europe for the sale of generator sets.

The software has been designed at substantial cost to come with extensive colour graphics and "blow up" shots to give customers close-ups of the working parts of the equipment they buy. This has been done to make it more fun for the customer.

## Moving the earth for its customers

Caterpillar is taking computer graphics to its dealers. Nick Garnett reports

"The software makes the job of selecting the right equipment quicker and easier but it is also a marketing tool to attract potential customers into Cat dealer showrooms," says Alan Scott, the 37 year-old computer expert at Cat who designed the system.

"It is a way of getting customers to our dealers so they can see our equipment. It is a way of catching the customer's eye and getting them to look at our technology."

Caterpillar, which claims a 10 per cent share of the European and African generator market, offers diesel engines with 70 different horse power ratings. It has more than 80 different generators ranging from 50 kw to 5250 kw and three variations of radiator.

The kind of generator set required by a hospital, factory, irrigation plant or pumping station is governed by a series

of considerations. Will it be a standby unit or one for continuous operation? Will kerosene or diesel fuel be used? At what altitude will it operate?

The vendor also needs to know what lead a standby generator has to carry, in other words how many big motors for powering elevators, compressors and so on it will have to start up after a mains power failure.

A production factory might also be sensitive to what is called voltage dip. If the voltage strength coming from a generator falls, say, 13 per cent below normal because of excess load, it could seriously disrupt the operation of electric-powered machine tools, resulting in expensive damage to the metal workpieces they were cutting.

Other constraints include the dimensions of the generator house and the kilowattage

of lighting the generator would be expected to provide.

The software package offered to dealers at a cost to them of \$650 incorporates a series of questions, the answers to which eventually produce a recommended combination of engine, generator and radiator. This saves a lot of time that would otherwise be spent by engineers at Cat and at the client company having to work laboriously through technical drawings and sheets of figures.

But what is striking about the Cat software is the way it has been redesigned, giving it some of the characteristics of a computer game to lure potential customers through the doors of Cat dealers.

The display, which can be projected onto a big screen, incorporates a form of colour animation where moving components are made to look as if

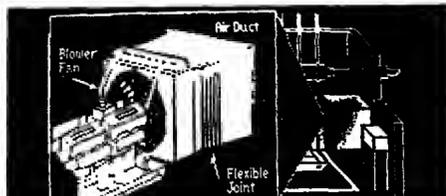
they are actually moving.

Parts of the generator set can be enlarged to see the internal workings of, for example, the exhaust system, ventilation and torsional vibration on the crankshaft.

"The idea here is that the Cat dealer can say 'Hey, this is what your equipment is actually going to look like,'" says Scott.

To underline how important the marketing angle is to Cat, the US company is looking at the possibility of using even higher resolution graphics which would make the engine look almost real. "The problem with that is that it would need a lot more hard disk space and involve a lot more cost."

The software allows a Cat dealer to give, within a few minutes, a simple estimate of the type and cost of a generator a customer may require.



Cooling - Radiator Duct Ducts incorporate flexible joints to prevent vibration transmission.

F1=Help PgUp/PgDn=Prev/Next F12=Main

The result is printed out on hard copy. But its main function is to produce a longer, detailed breakdown of the preferred solution, together with a detailed price quotation.

It also offers a 10-year investment analysis of each engine and covers things like fuel overheads and labour, service, and spare part costs. Because there are usually no

more than two Cat dealers per country outside North America, the software and the IBM equipment it is used on can be transported to customers' own sites.

The software is in English but from next year Cat dealers will be able to translate the question and answer menus into their own national languages.

## ACCOUNTANCY APPOINTMENTS

## Management Accountant

Group Head Office

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Royal National Lifeboat Institution

## Head of Finance

Poole, Dorset

The Royal National Lifeboat Institution is an independent charity whose sole aim is the saving of life at sea. Founded in 1824, it presently maintains over 200 lifeboat stations in Great Britain and Eire, the financial support for which comes wholly from voluntary donations and subscriptions. Its annual income in 1988 was close to £40 million, making it one of the largest charities in the UK.

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c.£30,000 p.a.

other members of the senior management group. Candidates will probably be chartered accountants, aged 35-50, with experience of running a finance function for a private or public sector organisation. Personal qualities must include excellent interpersonal skills, enthusiasm and the drive to contribute at both strategic and operational levels. To succeed, you will have strong empathy with the Institution's aims and philosophy and the stature to represent them to a wide range of external contacts.

Please reply in confidence to Sarah Orwin, quoting Reference ER 213, at Ernst & Young Search and Selection, 21 Conduit Street, London W1R 9TB.

Ernst & Young

## NORDIC COUNTRIES + 1992

The Financial Times proposes to publish this survey on:

25th January 1990

For a full editorial synopsis and advertisement details, please contact:

Chris Schaanning or Gillian King  
on 01-873 3428  
or 01-873 4823

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FINANCIAL TIMES  
LONDON'S BUSINESS NEWSPAPER

## MANAGEMENT ACCOUNTANT

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Please apply in confidence with a concise c.v. to:  
The Finance Director  
Stanley Gibbons Ltd  
399 Strand  
London WC2R 0LX



STANLEY GIBBONS

## LEGAL NOTICES

No. 007988 of 1989  
IN THE HIGH COURT OF JUSTICE  
CHANCERY DIVISION  
IN THE MATTER OF  
ERA GROUP PLC  
AND  
IN THE MATTER OF  
THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on the 21st November 1989 presented to Her Majesty's High Court of Justice for the confirmation of the Share Purchase Agreement Premium Account of the above-named company as at the 31st day of November 1989.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Honourable Mr. Justice Harman at the Royal Courts of Justice, Strand, London, WC2A 2LL, on Monday 18th day of December 1989.

ANY creditor or shareholder of the said company desiring to oppose the making of an Order for the confirmation of the said Share Purchase Agreement should appear at the time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the undersigned solicitors on payment of the regulated charge for the same.

Dated this 7th day of December 1989.

White Steps  
Queensbridge House  
80 Upper Thames Street  
London EC4M 3SD

Solicitors for the above-mentioned Company.

## COMPANY NOTICES

## GENERAL MOTORS CORPORATION

NOTICE IS HEREBY GIVEN that resulting from the corporation's declaration of a dividend of \$0.75 (gross) per share of the common stock of the corporation payable on the 9th December 1989 there will become due in respect of the bearer depositary receipts a gross distribution of 3.75 cents per unit. The depositary will give further notice of the starting equivalent of the net distribution per unit payable on and after the 15th December 1989.

All claims must be accompanied by a completed claim form and USA tax declaration obtainable from the depositary. Claimants other than UK banks and members of the stock exchange must lodge their bearer depositary receipts for marking. Postal claims cannot be accepted. The corporation's third quarter report for 1989 will be available upon application to the depositary named below.

Barclays Bank PLC  
Stock Exchange Services Department  
54 Lombard Street London EC3P 3AH

Quebec Central  
Railway Company  
Capital Stock

In preparation for the payment of the half yearly dividend due January 15 1990 on the above stock, the transfer books will be closed at 3.30 p.m. on December 12 1989 and will be reopened on January 2, 1990.

Assistant Secretary  
62-65 The Bazaar  
London WC2R 0BB  
November 30 1989

## CLUBS

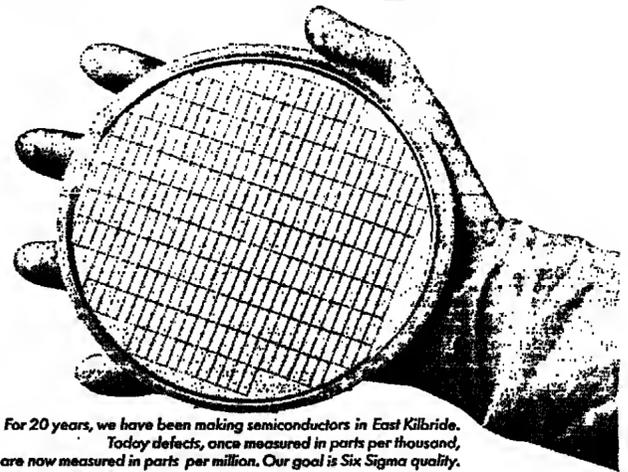
## EVE

has notified that offers because of a policy on fair play and value for money. Support from 10.3.30 am. Dinner and top table will be available to members on the following dates:

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189, Regent St., London.

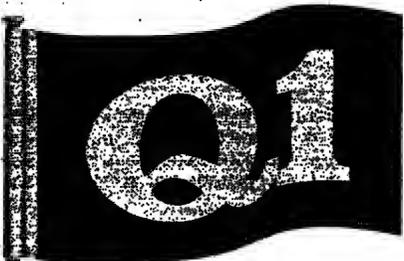
When you aim for perfection,  
you discover it's a moving target.

Every advance in quality raises new expectations. The company that is satisfied with its progress will soon find its customers are not. It is this belief that has spurred Motorola to a 100-fold improvement in quality since 1981. ■ Our formula is a simple one: First, we banish complacency. Second, we set heroic goals that compel new thinking. Finally, we "raise the bar" as we near each goal,



For 20 years, we have been making semiconductors in East Kilbride. Today defects, once measured in parts per thousand, are now measured in parts per million. Our goal is Six Sigma quality.

and set it out of reach all over again. ■ Today, Motorola's standard is Six Sigma quality, and we aim for only 3.4 defects per million pieces in all we do by 1992. Such standards are naturally appreciated by Rolls-Royce, the arch perfectionists, who have chosen us as their sole supplier of car phones. ■ Total customer satisfaction, our goal, is now on the horizon. We dare not rest in its pursuit.



Motorola were one of the first to be awarded Ford Europe's prestigious Q1 preferred quality award for our ESC2 ignition timing component.

Building On Beliefs



TECHNOLOGY

David Fishlock reports on Pilkington's invention of an advanced integrated circuit  
**Glass breaks into chip market**

**P**ilkington, the international glassmaking group, is developing a silicon chip that it believes is advanced enough to be exploited worldwide. Plessey, the UK electronics group, has already taken a licence but Pilkington hopes to sign up big Japanese chipmakers.

The integrated circuit design, called the dynamically programmable logic device (DPLD), is the invention of Kenneth Austin, an integrated circuit designer. He believes the circuit could become an international semiconductor standard.

The chip carries up to 10,000 integrated circuits, any of which can be reprogrammed while the chip is working. It can be used to call upon circuits as they are required or to repair them by substituting untrapped circuits for any which develop a fault.

The speed with which this can be done means DPLD's 10,000 circuits are equivalent to 10 times that of current circuit design. The reconfiguration can be arranged at long range, to "self-heal" a fault in a spacecraft, for example.

Austin and Pilkington came together in 1986 through Rainford Venture Capital, the group's venture fund. They set up a small research company called Pilkington Micro-electronics Ltd (PMeL), 80 per cent owned by Pilkington and 15 per cent by Austin.

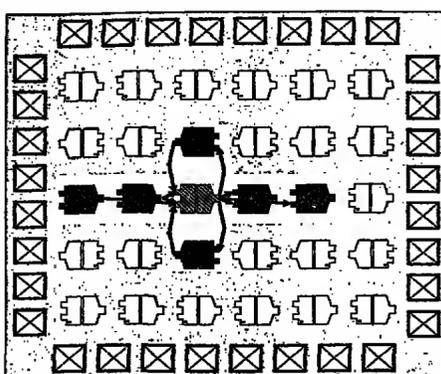
PMeL's patent claims a configurable semiconductor integrated circuit which has a unique local connection system. Each "gate" connects directly to a small number of other gates, each to a separate set (see diagram). Each connection can be dynamically changed to bring in new functions or to bypass faults.

Austin had previous links with the group through earlier inventions in encryption, using ASICs. "I think Pilkington recognised that Austin is a real inventor and operates best in this kind of environment," says Sir Robin Nicholson, the group's technical director and chairman of PMeL.

PMeL has been set up specifically to promote DPLD. Pilkington has three roles in relation to the company, says Sir Robin. It provides finance as well as experience in both exploiting and licensing technology.

The group rejected the idea of manufacturing DPLD chips itself, or of selling outright to the highest bidder. It believed that it could earn more by licensing to perhaps six silicon foundries worldwide. The big silicon foundries want new chip designs, Sir Robin says. The chosen course is expected to require development funds in the "low millions" compared with perhaps £100m to launch Pilkington into chipmaking.

PMeL consulted Douglas Stevenson, managing director of Software Sciences, Thorn-EMI's software division, on the likely reception of DPLD by the electronics industry. Stevenson approves of the licensing



DPLD local connection system Source: PMeL

route, although he can think of no other British company that has tried to break into semiconductor technology.

Plessey, the first licensee of DPLD, calls it an electrically programmable array (ERA), for which it sees two different uses. One stems from the high circuit packing density inherent in its design. The other is as a design tool to speed particularly the design of small batches of circuits. Plessey plans to market the ERA next February.

Sir Robin Nicholson says he is not forecasting another float glass, which has notched up more than £400m in royalties over the last 20 years. "We are looking for \$5m-£10m a year when the market matures,"

which he believes will be in the late-1990s.

D Pilkington is by no means alone in micro-electronics. Earlier this year it fused two advanced-technology activities - coated glasses and information technology - to create Pilkington Microtronics. It specialises in data storage and display, and manipulates sheet glass with a precision previously unknown in the industry.

Launched with a \$6m corporate investment in a manufacturing unit at Shotton, Cheshire, its mission is "to become a major supplier of high added-value, glass-related products to the electronics industry," says Ken Hughes, general manager.

For storing large amounts of data long-term (archives), it has developed a glass Worm (write once read many times) memory disc capable of retaining the equivalent of 1,500 Yellow Page books. The next will be four times as big, Hughes claims.

Glass has the advantage of stability, says Julian Barnes, commercial director. Barnes believes the explosive growth for coated glasses in information technology will come in flat displays, from 4m square metres a year today to 100m square metres a year by the end of the century.

Neither architecture nor transport offers this kind of growth prospect for glass, he says. It could amount to a £1bn industry worldwide by the end of the century. Pilkington's target is to become the dominant player outside of Japan.

Both data storage and display products depend on cutting and shaping glass with unprecedented precision - in the case of discs, to a few microns for both inside and outside diameters. The product must also be polished flat and free from surface defects. The latest Japanese "super-twist" liquid crystal displays, for example, need pairs of glass plates set precisely five microns apart.

Value is added when the information processing structure - coating, texture and shape - is applied to glass. Lawrence Greasley, technical director, likens it to silicon semiconductor technology on a large scale. "The trend is bigger and bigger pieces of glass, smaller and smaller structures." The constant challenge is getting a good yield.

**Price packages at a lower cost**

**MOST** electronic information on share, bond or foreign exchange prices changes can be received in two ways: either as soon as the changes occur, using an expensive on-line service; or once a day, after the markets have closed.

For those who cannot afford the former, but find the latter inadequate, Reuters, the news and financial information company, has packaged its price service so that companies can receive the specific information they need at the times they need it.

Aimed primarily at portfolio managers, unit trust departments and those in charge of pension funds, the Snap-shot service updates clients' portfolios at pre-determined times - hourly, daily or weekly.

The prices, from the world's big markets, are held on the Reuters host computer and sent from there across the company's data network to subscribers' personal computers.

The data can then be used to update existing portfolio or spreadsheet software packages. Charges depend on the type of information requested and the frequency.

**Servers share the computer work**

**SUN** Microsystems, the Californian workstation manufacturer, is continuing its foray into the networked workstation market with two mid-range computers, or servers.

The two servers are intended for use by companies who want to link their workstations together and so share files, printers, disk drives and other peripherals. Although Sun announced a family of computer servers earlier this year, yesterday it revealed the 486, its largest and most powerful machine, and the Server 1, its smallest.

The former can have up to 32 Gigabytes of disk capacity - which could hold more than 500 words of text. The latter, by comparison, is aimed at companies that want to join together between just two and five workstations.

**Bedsore get discharged**

**A HOSPITAL** bed which prevents patients developing bed sores has recently been

announced by the Ahlstrom Group, of Helsinki, and Eurapak's Consumer Products, writes Michael Swiss.

The bed evenly distributes the patient's weight by using a multi-layered system of air pockets, rather than the traditional mattress. This technique supports the body evenly and prevents any interruption in blood circulation - the cause of bedsores. The scale of the problem is demonstrated by statistics from the US, where around \$5m (£3m) is spent annually treating bedsores.

The air-pocket system is likely to prove less expensive than existing techniques, which involve computer-controlled motorised bed systems costing up to \$50,000 each.

**Computers join forces for 1992**

**GEARING** up to take advantage of the single European market in 1992 are seven computer hardware, service and repair companies which have formed a federation in order to service their customers throughout Europe.

The dual aims of the European Federation of Computer-Technology (EFC) are to give the individual companies greater clout in purchasing and to give their customers with offices throughout Europe the choice of going to just one organisation. Between them the companies do everything from selling laptop computers to repairing disk drives.

The seven companies are Alfa of West Germany, EAF of the Netherlands and Belgium, EPS Electronics in Italy, Blacker of Switzerland, Neutron of the UK and Material Management in Ireland.

**Mozart is finally in the money**

**MOZART**, one of Austria's most famous sons, is contributing to the country's technologies as well as its arts.

An iridescent stamp-alike representation of Mozart's head is being used by the Austrian National Bank on its latest bank note in an attempt to prevent fraud. As the note is titled, Mozart's head moves from left to right.

The device, known as a Kinegram and developed by Lennox & Gyr in Switzerland, resembles a hologram. But whereas a hologram is a laser photograph of a three-dimensional object, the



**WORTH WATCHING**

Edited by Della Bradshaw

Kinegram uses a computer-generated design, etched into a medium such as metal foil. The width, depth and angle at which the lines of the picture are engraved give the changes in the picture as it is tilted in the light.

The foil Kinegrams are stamped on to the documents so that they cannot be removed without being destroyed. If they are photocopied they will produce a blurred image, unlike holograms where a static picture can be successfully copied.

The big advantage of the Kinegram is that it can be printed on paper as well as on plastic, and could be used on driving licences or passports as well as bank cards. The disadvantage is that it is an expensive technology. The Austrian National Bank is only using it on its 5,000 schilling banknote - worth approximately £250.

**Apples keep the smoke at bay**

**IF** your New Year's resolution is to give up smoking, the answer could be an apple-flavoured delicacy now on sale in Switzerland.

The Switch, from Aroma Switch of Zurich, looks just like an ordinary cigarette, but contains no tobacco or nicotine and is smokeless. Instead, it contains granules which taste and smell like apples. Aroma Switch says this has a soothing effect.

The other main difference between this and the traditional cigarette is that the Switch must not be lit.

Contact: Reuters: London 269 1122. Sun Microsystems: US: 415 960 1300. Ahlstrom: Finland, 0 7631. EFC: UK: 0482 870066. Lennox & Gyr: Switzerland: 42 24 11 24. Aroma Switch: Switzerland 13 91 49 44.

**Bifocal lenses find sophisticated contacts**

**DEVELOPMENTS** in contact lens technologies mean bifocal-wearers will soon have the option of wearing contacts.

Ordinary contact lenses and spectacle lenses use only refractive optics to bring light to focus. Using diffraction - where light is spread around the edge of an object or opening - as well as refraction, which bends light, a bifocal effect is created. When light passes through two or more

openings or by two edges, diffraction can combine light waves to produce an intensity pattern, called constructive interference. Diffraction brings an image to focus at two points and does not produce confusion in a person's vision.

The 3M corporation in the US has produced a multifocal intraocular (within the eye) lens, based on diffractive and refractive optics, that can be fitted in the eye after cataract

surgery has removed the natural lens. Conventional intraocular lenses use refractive optics to focus light.

The lens is also intended for people who are near and/or far sighted. The intraocular lens has been designed to mimic the natural eye's ability to accommodate for different object distances. It minimises the chance of a person needing bifocals or spectacles after cataract surgery, according to 3M. The

lenses have been fitted to a limited number of patients. 3M is waiting for approval from the US Food and Drug Administration before making the lens widely available.

Allergan Optical, part of the US Allergan corporation, recently launched a soft bifocal contact lens based on diffractive and refractive optics, which it claims is the first soft diffractive bifocal contact lens in the world. Pilkington of the

UK developed a hard bifocal lens based on diffractive optics about two years ago.

The diffractive, as in the multifocal 3M intraocular lens, is achieved by a series of tiny concentric rings, a few microns in diameter. The Allergan Optical lens is a cast moulded design, while the 3M lens is precision machined to within a few wavelengths of light.

Lynton McLain

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BUSINESS LAW

Regulation rules too detailed

By Paul Nelson

THE AMENDMENTS to the Financial Services Act (FSA) aimed at simplifying the investor protection regime have become law in the 1989 Companies Act. Unfortunately, they are based on the misconception that every contingency can be provided for. Like "de-regulation" and "self-regulation" in a statutory framework, "simplification" may be illusory.

Certainly the rulebooks need to be simplified. They are too long, too complicated and expensive to comply with. As a result, they do not protect effectively the private investor.

The reasons for this failure go to the heart of the FSA. The scope of the activities to be regulated was too wide and resulted in a Securities and Investments Board (SIB) rulebook dealing with every conceivable circumstance. The situation was made worse by the confusion in the legislation between market regulation and consumer protection and compounded by problems of putting it all into practice.

Existing "out" together an extremely detailed rulebook, the SIB interpreted strictly the requirement in the FSA for the rulebooks of the self-regulating organisations (SROs) to be "equivalent." Some also argued that, because of the right of action for investors under section 62, firms must have their duties set out in laborious detail.

The rulebooks often regulate the same subject matter in different ways, leading to "regulatory arbitrage." They need to be harmonised to achieve consistency. The structure of a SIB and five SROs (leaving aside nine recognised professional bodies) does not naturally tend towards consistency.

Simplification and consistency cannot be wholly reconciled given the structure of so-called self-regulation. However, the proposed changes to the FSA, as amplified by the SIB's August paper setting out its preliminary views, attempt a reconciliation.

The statutory system has not been radically overhauled (for example, to meet the European Directives) along institutional rather than functional lines to separate banking, insurance and investment services.

Instead, the Government's amendments graft on further complexities.

The SIB will lay down 10 general "principles" of conduct. These will apply directly to all authorised firms. The SIB will also set out 50 or more core rules, directly applicable to SRO members. The SROs will then make sub-rules which amplify, restrict, qualify and interpret the core rules. The SIB has the power to publish codes of practice which would also qualify the core rules.

The SROs' rulebook will not be judged by its line-by-line "equivalence" to the SIB's massive rulebook. Rather, it must achieve "adequate" over-all investor protection. This will be judged on the investment business, the investors and the controls to which SRO members are subject.

Investors are not intended to be able to sue for breach of the principles, only of the rules. Even then, only private investors will have a right of action under section 62.

The principles are expressed very generally. For example, a firm should "observe high standards of integrity and fair dealing." The principles are not intended to give rise to a legal right of action, but only disciplinary sanctions, which may be instigated by investors.

However, principles as standards for the whole industry having been laid down, it is possible that failure to comply with them may be proof of negligence or proof of failure to comply with an implied contractual term. This is worrying given the obscure drafting of some of the principles and their generality.

The SIB's proposed core rules suffer in a similar way. The principles and core rules alone would not generally be sufficient for an SRO to demonstrate "adequacy." Several are unworkable without sub-rules. Some - such as the criteria for the contents of investment advertisements - expressly require compliance with detailed sub-rules.

From other core rules, exemptions are required - for example, in cases in which the firm is dealing with business and professional investors. Most require simplification and qualification to be intelligible.

The Investment Management Regulatory Organisation (Imro) has stated that it does not agree with several core rules and there are indications

that other SROs are not at one with the SIB on their content.

None the less, each word of each core rule will be directly applicable to the SROs' members. The SROs' rules give the core rule followed by "interpretations," "extensions," "derogations" and "notes." This induces a drafting technique - with a possible consequent parallel lack of clarity - similar to that used for the rules of the Securities Association.

The Government has included a provision that, in framing its rules, the SROs should have regard to the costs of compliance. But this provision does not enable an SRO to omit a rule needed for "adequate" investor protection merely because compliance is too expensive. It only enables the SRO to implement the rules in a less costly fashion.

The SIB also appears to have failed to give the SROs detailed guidance on what parts of the current rulebooks could be omitted.

The core rules are merely the existing SIB rulebook expressed more generally. It would be open to an SRO to simply re-hash the whole of its current rulebook. This is what Imro proposes in a draft rulebook published in November.

A real and admitted simplification would not recast each current rule as a sub-rule. The correct approach would be to cross out all rules which merely restate the existing common law or other statutory duties, and then implement a good number of others as codes of practice or guidance. A breach of such a code of practice or guidance would not be directly actionable under the amended FSA, though it could be treated as evidence of non-compliance with a principle or rule.

Most of the remaining rules should then not be applied to dealings with business and professional investors who could be expected to look after themselves.

General but accurate drafting of both core and sub-rules would simplify both. Indeed, the clear drafting of the core rules would probably make unnecessary many of the sub-rules.

Of course, since there are legal remedies for breach of a rule it must be properly drafted. But it is an error to

think that this requires detailed rules.

The debate comes back to personalities. Are the regulators and the regulated committed to a radical simplification? It has been said that firms prefer detailed rulebooks because they know exactly what they have to comply with and, once they have done so, can forget about the matter.

This attitude is based on a fallacy. The draftsman of any legal rule does not contemplate an infinite number of situations. The more detail there is, the more difficult it becomes to determine what to do. Clear, accurate and general drafting is the answer.

But that presupposes a clear and accurate purpose in regulation. It is possible, though unlikely, that every rule, sub-rule, paragraph, sub-paragraph and sentence in the existing SIB rulebook is aimed at a potential mischief which must be regulated.

The SIB must announce what really needs to be regulated and then provide the leadership to see the work carried out. Everything else should be jettisoned. This may require a sweeping change of attitude. Alternatively, recent press comment would suggest that an SRO-type SIB may be emerging.

The Financial Intermediaries Managers and Brokers Regulatory Association (Fimbra) and the Life Assurance and Unit Trust Regulatory Organisation (Lautro) seem likely to stick with their existing rulebooks. The Securities Association has not yet published its own.

Imro views all this as no more than a drafting exercise to recast its existing rulebook. Its new draft is more logically ordered and in a more appropriate format. It attempts to solve some existing problems and ambiguities - solutions which can be achieved, however, under the existing provisions of the FSA.

When the so-called "new settlement" is implemented, every authorised firm will have to review its compliance procedures in detail. It will not be worthwhile, without substantial changes, particularly if it all has to be done again two years later when the European directives are implemented.

The author is a partner in Linklaters & Paines.

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ARTS

CINEMA

Poet of balmy incidentals

"I feel a bit discombobulated" says the Italian lady registering at a hotel in Memphis, Tennessee. "Yes," says the black receptionist, "I know the feeling."

We all do, after an hour of watching Jim Jarmusch's *Mystery Train*. As Henry James would say: Nothing, beautifully, happens. Telling three related tales for the price of one, *Mystery Train* is a sort of one-man *New York Stories* gone south and gone seamy.

Melancholy in their plotlessness, Jarmusch's films (*Stranger Than Paradise*, *Down By Law*) feature drifters and outcasts intersecting in pillaged backwaters of the US. If you called these movies shaggy dog stories, the shaggy dog union would sue for slander. *Mystery Train*, like its Jarmusch forebears, is pleasantly minimalist even by their standards. In part one a young Japanese couple, fresh off the train, drift across Memphis practicing plummy English back in a post-war locale. In part two, a widowed Italian lady is "discombobulated" by life, Memphis and the ghost of Elvis Presley. And in part three, a gang of fugitive crooks hole up in the hotel which lodges all three sets of characters.

Check your pulse at frequent intervals: make sure you are still alive. So much narrative becalming can be dangerous.

But given time it can also steel over you. Jarmusch at best is a poet of balmy incidentals and the "drip-drip" of daily life. Best episode here is the first, where a forlorn clownishness is wondrously captured by actors Yonki Kudoh and Masatoshi Nagase, as they raise inauspiciously to the level of high karma. A general over the merits of Memphis and Yohama train stations, a bleaky dotty conducted tour of the famed Sun Recording Studio ("Please form yourselves into a row" says the guide to the barely half-a-dozen visitors); much Beckwith non-sequiturs and mimetic hickeys (especially with an acrobatic cigarette lighter); and a beautifully gnomic coda in the hotel.

Here the girl asks the boy why he never smiles. "I'm very happy," he says, "unsmiling." That's just the way my face is." The same with deadpan Jarmusch: it's just the way his films are. If you love those

MYSTERY TRAIN

Jim Jarmusch

COMIC BOOK CONFIDENTIAL

Ron Mann

DRUGSTORE COWBOY

Gus Van Sant

EAT A BOWL OF TEA

Wayne Wang

CAT CHASER

Abel Ferrara

parts of your life in which "nothing" happens, you will enjoy squeezing the drops of concealed consequence from *Mystery Train*. Set in a town whose antique, exotic name belies its pop-culture Americanism, the film's secret message is surely the elusiveness of that modern Holy Grail, the "American dream." But do not expect revelation to be brought to you. You must seek it out yourself. If that sounds too much like hard work, skip the mystery train and wait for the express.

In other parts of America today, the streets are full of people born in cartoon frames and talking in "speech balloons." They feature in Ron Mann's spitting documentary *Comic Book Confidential*. Mann rounds up the necessary suspects - comic-strip artists like Robert Crumb ("Fritz the Cat"), Jack Kirby ("Captain America") and Art Spiegelman ("Maus") - and quizzes them on their art. A fixating focus through popular (deservedly popular) American culture.

Nigel Andrews

The gang of addicts in *Drugstore Cowboy* don't simply steal money to support their habit; instead they cut out the middle man and remove the drugs, from hospitals and pharmacies, themselves. Their ingenious methods of distracting attention while they purloin the goodies provide the lighter moments of a bleak and uncompromising film in which the group of four, led by Bob

(Matt Dillon) accept their addiction, and regard their raids as their work.

Beautifully shot, with the occasional tricky extreme close up - a room scene from inside a light bulb, the texture of a note pad under the pressure of a pen - the somber, documentary style underlines the mood of the plot; honest, and unapologetic. The characters are objectively shown, shooting up or discussing a raid - not misunderstood, not romantic, but not complete villains either, just human beings given to go on running and stealing to feed their addiction. Their constant flight requires as much effort as the will Bob finally discovers to give up drugs. His decision turns his love story with his wife, Dianne, into a triangle, with drugs as the irresistible rival, winning her from him.

The performances are remarkable, especially the often underrated Matt Dillon, Kelly Lynch as Dianne, and William Burroughs as a doctor who prescribes, in 1971, the way in which future governments will use public fear of drugs as a political weapon. And director Gus Van Sant has gambled and won with his decision to concentrate on reality at the expense of neat, fictional answers. The film's determination to be honest could have been its downfall but, though there is an initial, deceptive sense of detachment created by his treatment, its impact, instead, grows after the story ends.

Human nature of a gentler kind informs Wayne Wang's *Eat a Bowl of Tea*. When relaxed immigration laws allow Chinese women to enter post-war America, newly married Ben Loy and Mei Oi (Russell Wong and Cora Miao) are a novelty in an aging male community. The interlocking old men create so much pressure for them to produce a baby that Ben Loy's resulting impotence defies their purpose. This is no laughing matter for the couple, but one achieves a light, charming social comedy without undermining the delicacy of their problems.

The heroine of *Cat Chaser* is rich, she wears expensive clothes. But her chic blonde hair is ostentatiously dark at the scalp. Is this a comment on her character, or does Kelly



'Dangerous Cowboy': Matt Dillon and Kelly Lynch

McGillis have a careless hairdresser? May be getting to the root of the significance of her roots would highlight the point of *Cat Chaser* too. Instead, the characters in this thriller are so poorly established that even the voice over narration, introduced to fill in the gaps in plot and motivation, is ineffective.

The story, based on an Elmore Leonard novel, does offer some promisingly James M. Cain touches. There is Moran, woefully played by Peter Weller, trying to run his Miami motel and resist temptation; some mysterious criminals who need his help; Mary, the seductive, trapped woman; and her rich, corrupt, South American husband, De Boya. As Mary follows Moran on a rather arbitrary trip to South America the narrator helpfully explains that though they have been giving each other the glad eye for years, this is their first

consummation. "Are you going to hold me or that beer?" she asks breathlessly, and they grapple on the bed, giving the audience time to ponder all those Cain biggies. Mary wants a divorce but De Boya is refusing to give her the amount named in their prenuptial agreement, "only \$2m," she mourns. And not even a single indemnity.

A few years ago Lawrence Kasdan borrowed a similar scene in *Body Heat*, and made it pay off with enormous success. *Cat Chaser* borrows without paying back, introduces the elements without following them through adequately. Its title refers to a nickname given to American soldiers in South America. Of course, a cat chaser, like this film, can also be a dog.

Ann Totterdell

Coriolanus

ROYAL SHAKESPEARE THEATRE, STRATFORD

Even with the acceptable face of mob democracy being its death in Eastern Europe at the end of this astonishing year, the Royal Shakespeare Company at Stratford-upon-Avon cannot make *Coriolanus* sound like a play that really matters. This we must interpret as another indictment of Terry Hands's artistic directorship; still no news of who might succeed him next year.

The revival that opened on Tuesday, with Charles Dance returning to the company apparently under sufferance and certainly not for the money (as he informed the Daily Mail, therefore qualifying immediately as nasty enough for the role he once underplayed here), is directed by Hands "with John Barton." One must assume that Hands is responsible for the hieratic, cold neutrality of Rome and the contrasting soft red Arabeleau of Antium while Barton has taken care of the difficult and knotty verse.

In the middle, the soul of a play goes missing. In a just about decent evening, the company, without defining any future prospects for the company or indeed eclipsing memories of Barton's own wooden primitivist spectacle of 20 years ago with Ian Richardson as a gold-headed golden voice, or Hands's black leather spectacles ten years later with Alan Howard as a self-obsessed solo turn, his best role. Dance was a glinting Aufidius (and understudy) on that occasion.

He still glints, with those blue eyes, that swishing glimmer and Benjaminian wit. And he has the lungs. But his performance is a series of demonstrative tableaux, not an account of the journey of a contemptuous political soul in the wilderness of public disapproval. The spur is in it, whether he appears bloodily in ghostly half-light, sabre flashing in the sun on "Make you a sword of me;" or peddling patently false rhetoric in the



Barbara Jefford and Charles Dance

"for your voices" speech; or hurling a table across the forum on "you common cry of curs," ripping off the white senatorial tunic and departing in a huff to the world elsewhere, the political opposition. The interpretation is pitched on one note of obtuse disgust, which makes it easier for the peerless Barbara Jefford to undermine his ascendancy as the beseeching Volturnia at the gates of Rome. Miss Jefford heads a formidable triumvirate, her ferocious terrorism well supported by Amanda Harris's broken Virginia and Jane Mend's haughtily religious Valeria. But what really catches the RSC out here is the awfulness of the rubarboring crowd, its phoney choreography, its terrible bit-part playing and predictable reactions.

The tribunes are made nothing of by Joe Mella and Geoffrey Freshwater, who walk up and down a bit and tremble in their shoes. Apart from Miss Jefford, the major contribution is made by Malcolm Storry as Aufidius, a skinhead killer whose twists and turns of conscience are for once more interesting than those of Corio-

lanus. And Joseph O'Connor is a wonderful, if unsurprising, Menenius. The box-like design of Christopher Morley contains three meaningless towers, one of them mobile and covered in bronze reliefs. Modern interpretation has imbued a neoclassic symbolism on the warring protagonists (as with Ian McKellen and Greg Hicks in the Peter Hall National Theatre version), but none of them here. The clash of titans is without a hint of recognition or embrace, and the play is weaker as a result.

The final family pious are conducted in a high-tech canopied arena, Dance clinging to Jefford for 20 seconds before cracking, another reaction based in neither psychology nor temperament. He is stuck like a pig in the back by Aufidius's knife, after a brief and public torment, and carried from the stage face and gleaming torso open to the skies. One feels that rehearsal time has gone into that, rather than any discussion on how the play relates to the artists and their audience.

Michael Coveney

OBITUARY

John Pritchard

John Pritchard, who has died in San Francisco at the age of 68, was one of the leading figures in British musical life of the post-war period: perhaps Britain's most widely travelled conductor, certainly, in the last two decades, one of its busiest. He made his mark in almost every branch of musical life. Though first brought to public attention as an operatic conductor at Glyndebourne - which for three decades remained his artistic home - Pritchard was a familiar figure on the concert podium, whether as chief conductor of the Royal Liverpool Philharmonic (1957-63), the London Philharmonic (1962-69), or the BBC Symphony (1979-88). While it may not be true to say that he bestrode the British musical scene as did, in their different ways, a Beecham or a Boult, his astonishing natural musicianship, versatility, and willingness to tackle a wide repertoire, from Monteverdi to Stockhausen and taking in an enormous number of first performances, kept him in the forefront of this country's musical activities throughout his career.

Pritchard, the son of a professional violinist, had his first success as conductor of the Darby String Orchestra (1942-45). After the war he joined Glyndebourne as a répétiteur, soon becoming chorus master and eventually assis-

tant to Fritz Busch - it was as a result of the senior conductor's sudden indisposition during a 1949 festival performance that he made his conducting debut there. In the final stages of his Glyndebourne association he was musical counsellor (1963-69) and musical director (1969-79); Pritchard's reputation as one of the world's leading conductors of Mozart opera was intimately bound up with his experience of and in the Glyndebourne theatre, and came to a climax in the Mozart productions *Figaro* (1972) and *Don Giovanni* (1977) - on which he collaborated with Peter Hall.

But his peculiar gifts in Rossini and the Italian bel canto composers, which may have been developed under the tutelage of another great Glyndebourne performer, Claudio Abbado, were no less remarkable: in recent years it was via Bellini (a new production of *Norma*, 1987) and Donizetti (revival of *Lucia*, 1988) that Pritchard maintained links with Covent Garden, a theatre in which he had regularly appeared since 1952, and where he had taken charge of the premières of Britten's *Gloriana* and Tippett's *Midsummer Marriage* and *King Priam*. His vast experience in the field of opera gained him chief conductorships in the theatres of Cologne, Brussels, and San Francisco.

Pritchard was a conductor

admired by orchestral musicians everywhere. He was a famous "quick study" who could solve difficulties of scoring and balance with an insider's understanding; likewise, his sympathetic approach to instrumentalists and singers (he was much depended on by soprano from Jurina and Calas to Cotrubus and Te Kanawa) lent him particular renown as an accompanist. In spite of all this, it was not invariably the case that a Pritchard performance would be characterized by energy - a certain indolence of manner could make itself felt, and vitiate the intelligence and fluency of his music-making.

But no-one who had the good fortune to hear him on an "on" night is likely to forget the experience: the present writer has particularly happy memories of outstandingly fresh, buoyant, and gracefully phrased readings of *Così fan tutte*, *Figaro*, and Strauss's *Capriccio* and *Intermezzo* at Glyndebourne, of Bellini's *Capriccio* at the Proms, and of Chalkovsky symphonies (the earlier couple at the Festival Hall). Pritchard was a cultivated man, a bon vivant, and a genial conversationalist, with a fine line in blending humour and indolence. He was made a CBE in 1982, and knighted in 1983.

Max Loppert

Don Carlo

ROYAL NORTHERN COLLEGE, MANCHESTER

When required, the auto da fe seems with life, filling the stage to overflowing but never losing a focus, while no chance is lost to underscore the shifting loyalties of the opera, in a glance or a gesture. In that he is reinforced by his principal singers, who have clearly worked at these roles until they have been absorbed into their very bones. On the first night on Tuesday Peter Ruzicka singing Carlo was suffering from laryngitis; he struggled through one and a half acts then surrendered, walking through the remainder of the opera while his lines were sung from the pit by a young ex-RNCG professional, Colin McCracker. That inevitably diminished some of the ensemble work, but the vivaciousness of the surrounding performers scarcely allowed the tension to slacken: a marvelously contained, mature Rodrigo from David Ellis, a voice still to gain some depth and character but absolutely assured on stage, thrilling, extravagant Eboli from Sara

Fulgioni and intense, moving Elisabetta from Edith Pritchard, whose singing showed a remarkable control of line and phrasing. That trio, as well as the King of Pavlo Hanka and Grand Inquisitor of Andrews Slater, kept the core of the opera tight and always involving. The chorus, from the very opening of the Fontainebleau scene onwards, sang with great passion; the opening of the auto da fe was positively hurled at the audience. The orchestral playing did not falter, and Schmidt's knack of etching in woodwind detail brought constantly shifting perspective to the score, even if there were moments when a little more recklessness, and less diffidence about re-running the dramatic points would have been useful. A glorious evening then; there are further performances from Saturday onwards, if any tickets are to be had.

Andrew Clements

Welsh National Opera

DOMINION THEATRE

Since 1979 the Amoco-sponsored visits to London of Welsh National Opera have been regular and highly valued. For much of the past decade, this has been the British company likely to divine and pursue the new directions in opera, to provide stimulation and surprise in greatest quantity; and even now, when WNO appear to be going through a relatively lean period of artistic achievement, a week of performances at the Dominion was still something to be looked forward to.

The London schedule is made up of recent, well-spoken revivals of *Lucia* and *Borcher* beside, along with the new *Frischitz* production, which on Tuesday filled the opening slot. One hopes the WNO showings of Donizetti and Smetana will do something to dispense the gloom caused by their Weber, since André Eng's staging of the Great German Romantic Opera seems to be a complete turkey - the charm, seriousness, charged atmosphere, and urgency of the original have

been thrown out, and absolutely nothing (other than an unhelpful New England setting) has been put in its place. This is a closely worked, finely integrated study in total negativity on the lyric stage: a set that means nothing, a libretto plodded through, a string of intelligent and responsive performers left to make their own devices on the stage. Whatever the purpose of the production, its actuality is an even level of tedium that must have saddened anyone in Tuesday's audience who knows and loves the work.

This was in spite of knowledgeable conducting by Peter Hirsch - not exciting, perhaps, but well balanced and musicianly - and notably fine singing from Rita Cullis (Agathe) and the American tenor Joseph Evans (Max). The unfocused tone of Phillip Jell as Kaspar raised another yet question-mark over the vocal condition of this enormously talented young singer. An evening best forgotten.

Max Loppert

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ARTS GUIDE

EXHIBITIONS

London

The Hayward Gallery. The Other Story - an intriguing but uneven survey of the work of artists drawn from cultures other than that of the western European tradition. Daily until February 4, except bank holidays. Whitechapel Gallery. Michael Craig-Martin - a retrospective of the sculptor's reliefs and wall-drawings of one of Britain's leading conceptual artists, unfailingly elegant in the deconstructive, though the intriguing ideas are more often of obvious and banal than profound. Daily until January 7 except Mondays and Bank Holidays. The British Museum. Golden Age - Art and Society in Hungary 1896-1914: in the light of the current ferment in Eastern Europe, with Hungary very much in the vanguard, it is salutary to be reminded just how active a participant she was in the European cultural commonwealth. Daily until January 14 except December 24 and 25.

Paris Musée des Arts Décoratifs. Je suis le Cahier - Picasso's sketchbooks. After two years of wandering the world over, the exhibition ends, aptly, in Paris. The 40 sketchbooks covering a period of 64 years follow closely Picasso's development. 107, Rue de Rivoli (4820214). Closed Tues. Ends Dec 31. Grand Palais. Archaeology in France. The exhibition presents 30 years of discoveries with some 3,000 objects, beginning with

the inevitable skulls and flint tools and ending with finds from the Louvre foundations. Closed Tues. Late-closing night Wed. Ends Dec 31 (4295410).

Musee des Arts Décoratifs. Bohemian glass 1400-1989. Some 200 exhibits, among them the famous ruby-coloured glass, show how - having freed themselves from Venetian influence - the glass-makers of Bohemia carried the art of cutting and engraving and painting. 107, rue de Rivoli (4280214). Closed Tues, ends Jan 28.

The Louvre. Arabesques et Jardins de Paradis. The beauty and richness of nature is a leitmotif which runs through Islamic art from Spain to India, from the 8th to the 18th Century. Closed Tues, ends Jan 15 (42026317). Galerie d'Art Salet Honore. Lauretta. Setting of the white and-red-coloured body against a deep black background, Lucas Cranach the elder dares to paint at the beginning of the 16th century in Luther's town a disturbingly beautiful Lauretta. 267, rue Saint Honoré (49801503). Closed Sat, Sun and lunchtimes. Ends Dec 15.

Brussels Musée des Arts Décoratifs. Innoçent Boyaux d'Art et d'Étude. Namboan Art explores the Portuguese influence on Japanese painting and the Splendour of No Theatre shows props and costumes from the Kokoro Ume-waka Collection. Closed Mon. Ends Dec 17.

Antwerp Hesselhuis. 68 Falconrui. Japanese posters by 12 graphic

designers. Closed Monday, ends Dec 17.

Madrid Fundación Juan March. Retrospective of Edward Hopper opens this autumn season at the foundation. 81 works by the New York realist covering a period of 56 years. Until Jan 4.

Barcelona Caixa de Barcelona. Raoul Dufy. Works by the French fauvist, well known for his lively use of colour and interest in various forms of art, are on show in Spain for the first time. Ends Dec 15.

Hanover Sprengel Museum. Kurt Schwitters' Platz. Der blaue Reiter (The Blue Horse), this museum is displaying around 61 pieces from his own collections as well as some additional paintings on loan from East Germany and by other artists who belonged to the same Munich-based group. Until Feb 11.

Cologne Museum Ludwig. Bischofsgartenstrasse 1. The most comprehensive retrospective on Andy Warhol, who died in 1987, with around 160 pieces from New York.

Munich Städtische Galerie im Lehmbruckhaus. The most complete retrospective of the expressionist painter Carl Schmidt-Rothluff to date with almost 370 works from 70 private and public collections.

December 1-7

Vienna

Museum for Applied Arts is hosting a large exhibition devoted to the works of architect Josef Hoffmann and architect. The theme is focusing on "The Other City". Until Jan 15.

New York

Metropolitan Museum. A decade of fabulous shows borrowed from around the world culminates in the present exhibit of the major works of Velázquez, much of which is borrowed from the Prado in Madrid. Ends Jan 7.

Washington

National Gallery. Almost three dozen paintings of the early 20th century German movements, Bauhaus, Neue Sachlichkeit and Blaue Reiter, lent by the Thyssen-Bornemisza collection, make a telling commentary on a part of the world again at the centre of attention internationally. Ends Jan 14.

Tokyo

Idemitsu Museum. Plowers of Edo. Paintings and prints of flowers from the Edo Period represent a new flowering in Japanese art, influenced both by new trends in the decorative arts of China and by the botanical illustrations of Europe. Odakyu Gallery (Odakyu Department Store) Shinjuku, Kiyomizu Temple Exhibition. The temple, founded in 784, is one of the most popular in Kyoto and has a superb collection of Buddhist images and paintings. Ends Dec 10.

SALEROOM

'Blue Page' makes £1.1m

Not all the big art collectors around in 1907 were Americans. Joseph Robinson (he was later knighted) was a South African diamond millionaire who bought Dudley House in Park Lane in the 1890s and started to fill the vast picture gallery with choice Old Masters. He tried to sell them in 1923 but on the night before the auction fell in love with them again, raised the reserves, and kept most.

They are now being sold by his descendants and a group of nine went for £14,767,500 at Sotheby's yesterday. The most famous was probably Gainsborough's "The Blue Page," one of three famous paintings of boys in cavalier costume in the style of Van Dyck - the others a "Pink Boy" and the "Pink Boy." It sold yesterday for £1.1m, slightly below forecast, perhaps because there are doubts as to whether the background was completed.

There were no doubts about the top lots, two Florentine panels painted in 1487 to celebrate the union by marriage of two great banking families - those of Tornabuoni and Albizzi. They were destined to hang in the bridal chamber. One showing the Argonauts in Colchis is credited to Bartolomeo di Giovanni and sold for £5.06m, double its estimate. The other, the departure of the

Argonauts, attributed to "The Master of 1487" made £4.8m, comfortably above forecast. Both are in superb condition.

A Murillo, "The vision of St Francis of Paola" was within estimate at £1.458m, while Agnew paid \$294,000 for "An elegant couple in an interior" by the 17th century Dutch artist Egon van der Neer and another London dealer, Noortman, £770,000 for "A calm sea" by an artist of the same place and period. Jan van Cappelle. Outside of the Robinson pictures, a still life of flowers by Jan Brueghel the Younger sold for £1,012m as against a top estimate of just £180,000.

At Christie's silver made £915,013 with 13 per cent unsold - and a dividend of manuscripts £980,056, with 4 per cent unsold. Grand Ingle, the London dealer, paid £143,000 for a George IV silver gilt mounted lapis lazuli cup and cover. It was originally estimated at £1,500 but then it was noticed that the handles formed the crest of William Beckford, which accounts for the rise in price. Christie's had sold it at the Hamilton Palace sale in 1882 for £782 10s.

Among the manuscripts a New York dealer gave \$208,000 for a Book of Hours with many miniatures, produced in Bruges around 1500.

Antony Thorncroft

FINANCIAL TIMES

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Thursday December 7 1989

The building of Europe

THE MEETING of the European Council this week-end has been described by President François Mitterrand as "a turning-point for our Community's future."

Europe, where the EC is called on to react decisively to a fast-moving series of events in fact to behave like the major power in the world.

Misguided declaration

The Social Charter, a well-intentioned but misguided declaration of principles, will be adopted in Strasbourg with Britain's strongly registered dissent but probably without much further to be said.

Constructive suggestions for overcoming these problems - some requiring treaty revision while others could be adopted straight away - were made in a paper presented in Brussels last week by Mr Henri Frenet-Meurice, a former French ambassador to Bonn.

Cession of powers

The second problem is the "democratic deficit" - the loss of effective popular sovereignty resulting from the cession of powers by directly elected national parliaments to a Community whose legislative body is the Council of Ministers.

Strong case for embryo research

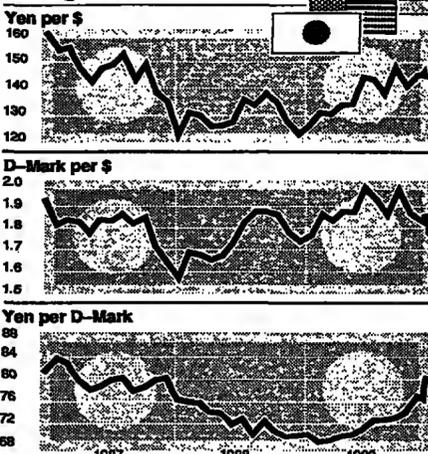
TODAY BRITAIN'S House of Lords holds the first debate on a controversial measure, the Human Fertilisation and Embryology Bill.

to do embryo research. The promised benefits include: improved in vitro fertilisation (IVF) techniques; diagnosis of serious genetic defects in embryos before implantation.

ECONOMIC VIEWPOINT A win for Germany

By Samuel Brittan

The big three currencies



interest in sterling's rate against the D-Mark. But this will not wash. For currencies linked to the D-Mark, either via the European Monetary System or more informally, account for nearly 60 per cent of the trade-weighted average.

Germany's monetary policy should adjust to the D-Mark becoming standard throughout Germany.

First, there is the migration of East Germans, and ethnic Germans from further afield, into the Federal Republic. These inflows are expected to reach nearly 700,000, or well over one per cent of the existing population.

German monetary policy should adjust to the D-Mark becoming standard throughout Germany

the exchange rate seriously. If we turn from sterling to the star-performing D-Mark, we need to go beyond rising German interest rates to a phenomenon which has been aptly labelled, the Economics of German Reintegration.

They suggest that the elimination of the discrepancy between output per head in the two parts of Germany will require an increase of 1 percentage point per annum in the

combined growth rates of the two parts of the country. About half of this extra growth might occur in the west, under the stimulus of immigration, and about half in the east.

The immediate effect might be to raise the 1990 growth rate in the Federal Republic to 4 per cent, compared to 2 1/2 per cent expected only a few months ago.

Thus, even if the Bundesbank raises both its estimates of potential real growth and its money supply targets, the Lombard rate will still have to rise from 8 per cent to at least 9 per cent and probably more next year.

The arrival of a flexible and mobile labour force is likely over a longer period to wear down union influence and weaken corporative nationwide collective bargaining in the Federal Republic.

Such effects should be beneficial to other Community countries. To suggest that the prospective increases in nominal German interest rates change justify an EMS realignment concedes far too much to short-term thinking.

The French Finance Minister, Mr Pierre Bérégovoy, has insisted that there should be no depreciation against the D-Mark.

A monetary union requires the replacement of exchange rate changes by movements of capital and labour, or changes in their relative prices.

But the reputation of being a wheeler-dealer stuck, as Reston notes, in the late 1970s after his acquisition of Connelly could have motivated long before a final push for the presidency, but this gambler's loss for the still bigger deal, took

BOOK REVIEW

The ultimate Texan

THE LONG STAR The life of John Connally James Reston Jr Harper and Row \$22

"I SHOULD have spent more time with that boy. His problem is he likes those oak-panelled rooms too much," Lyndon Johnson said of his old protégé and then fellow Democrat, John Connally, when he joined the Nixon administration as Treasury Secretary in December 1970.

Reston records the dramas of 1971-72 when Connally - aided by his then under-secretary Paul Volcker - played a central role in the end of the Bretton Woods fixed-exchange rate system and the devaluation of the dollar.

For all Connally's flaws, it is a tragic story, ending in January 1984 in a sale in Houston of his personal possessions after a final, speculative property binge led to bankruptcy.

Peter Riddell

The Scans get together

One development that is proceeding almost as quickly as German reunification is the consolidation of the Scandinavian banking sector.

Still nuclear

There is supposed to be a Government ban on the construction of new nuclear reactors in Britain, Christopher Harding, chairman of state-owned British Nuclear Fuels, does not believe it.

Smart move

The resignation yesterday of John Reynolds, economist at Prudential-Bache Capital Funding, to join County NatWest as market strategist and associate director next month shows that movements in the City are still galloping.

Good question

Nothing like an intriguing title. Edouard Balladur, the former French Finance Minister, will lecture at Chatham House next Tuesday on: "Can we build in the '90s the Europe we dreamed of in the '60s?"

Observer

I think I left my fingers on an spoiled ballot paper.

No sweeteners

British Aerospace, which among other claims to fame is the biggest public affairs payroll, has apparently gone into hiding after the disclosures about the terms of its takeover of Rover.

Keep going

Sign seen in a London school: "The End of History may be at hand. The end of algebra is not."

FROM Cartier THE JEWELLERS, A COMMODITY MORE PRECIOUS THAN GOLD, DIAMONDS OR PLATINUM. Does it ever seem to you that the pursuit of wealth allows you, by its very nature, too little time to enjoy it? Note, then, that Cartier have decided to restore a little of the proper balance of civilisation, on the Thursdays between now and Christmas, by remaining open until 8 p.m. Open, some would say, for business. Open, we prefer to think, for pleasure. For a relaxing glass or two of champagne. For an unhurried stroll around our distinctive jewellery, watches, pens and accessories. Just this once in your working day, you can enjoy absolute freedom from pressure. Temptation, of course, is another matter entirely. Cartier Ltd 175/176 NEW BOND STREET, LONDON W1. Late shopping with champagne on December 7th, 14th and 21st between 6 p.m. and 8 p.m.

Will Dawkins and Hugo Dixon report on France's phone system

# The apron strings are being untied

It may seem odd that Jean-François Berry, head of the French telephone users' association, is a contented man. France Télécom and its government masters have earned a bad reputation among their liberal European Community neighbours for delaying EC moves towards telecommunications deregulation and for being more interested in defending their public telephone monopoly than in looking after the people who use the service.

Yet according to Mr Berry, who represents 600 big, and very critical, corporate telecommunications customers, the reality is very different. French telecommunications users are happy, he says, because their phone charges among the lowest in the world, below even the competition countries like Britain and West Germany. They have the world's largest data switching network, the most digital transmission capacity, and the leading videotext service, Minitel.

Add to that France Télécom's fast response to the demands of Mr Berry's organisation for new services such as a dedicated phone banking picture is of a European leader in public telecommunications, not the laggard its critics have in mind.

Paris is, however, now embarking on its own telecommunications reform, partly driven by EC deregulation. The French government's desperate eagerness to be freed from heavy political control. The French government recognises that France Télécom needs to be given its head if it is to compete effectively on international markets. None the less, it is not alone in its commitment to a strong public service ethic. The policy of providing modern telecommunications facilities on a uniform basis across the nation is responsible for the success of services such as Minitel, officials argue.

Reforms planned to be submitted to the French Parliament next spring will give operating autonomy to France Télécom and the Post Office, currently divisions of the Post and Telecommunications Ministry. The telecommunications regulatory authority will stay as it is, as another section of the telecommunications Ministry. There will be new rules specifying which areas of the market will be open to competition and which will be France Télécom monopolies.

The current ferment in policy was started by a recent independent report commissioned by the Government from Mr Robert Frisvold, former head of the national planning agency. The report warned that France Télécom needed to change in order to compete once EC plans to liberalise the provision of telecommunications services from 1992 are implemented.

Mr Paul Quilès, the French Telecommunications Minister, has to persuade sceptical and well-organised employees that they will not lose the job protection they now get from being civil servants. His negotiations, which started in September, are going well,

but it will be tricky to bring them to a successful conclusion.

Moderate unions like the white collar FO and the CFDT accept that change must come, but the highly influential Communist-led OGT - the union that recently organised the worst strike ever experienced at Peugeot - would like to scrap the plan. They see it as a cover attempt to revive a privatisation plan tentatively floated by Mr Gérard Longuet, Mr Quilès' predecessor. Mr Quilès' advisers deny this is the case.

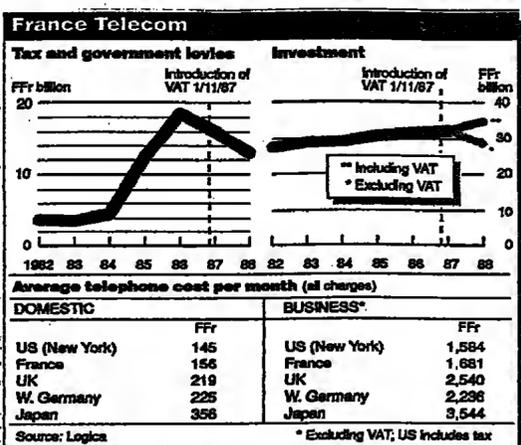
So far, the Government has cleverly used EC pressure for liberalisation to lead on the unions to accept reform. Even more cleverly, it has been able to use union resistance to support its own arguments in the Community for more cautious liberalisation than proposed by the Commission and supported by Britain and West Germany.

The pressure for change partly comes from the Government, which would not be moving so fast were it not for the demands of France Télécom, its suppliers and users. France Télécom's managers strongly resent the Finance Ministry's role in helping itself to their revenues to fund the state budget. They can never predict how much the annual charge is going to be (last year it was FF18.1bn out of a FF27.5bn turnover) - a real handicap at a time when the organisation is investing heavily in new services like mobile telephony and integrated services digital networks.

"Above all, we need fiscal stability. Under present conditions, our finances are decided for political reasons, which means we cannot make contracts on a commercial basis," says Mr Jean-Claude Lavenir, head of the group's director general. "I am not asking for total freedom," he adds. "I accept that the Government should be allowed to set three basic parameters: our quality of service, our maximum level of borrowing and our prices - but that is all."

France Télécom's suppliers agree that change is needed. "At present, we have a master-slave relationship," says Mr Jean-Claude Lavenir, head of SBT, the telecommunications equipment makers' association. He says that conflicts over contracts cannot usually be resolved in court as they could be if France Télécom were a state-owned company. The Government instead decides, as "judge and jury in its own case."

Nevertheless, French telecoms manufacturers are finding that their cosy world is being shaken up as a result



of new entrepreneurial spirit at France Télécom. Just as the state is in the process of untying the apron strings which bind France Télécom to it, France Télécom is developing a more arms-length relationship with its suppliers.

"In the 1970s, there was a policy to build a strong telecoms industry to serve the DGT [as France Télécom was then called] and become a player on the world market," explains Mr Jean-Claude Lavenir, who until recently was in charge of the group's purchasing policy. "Procurement policy was very nationalistic."

The costs of developing new technology, however, are driving France Télécom to buy equipment from foreign manufacturers. In the past it was possible to finance the development of two competing systems for the domestic French market alone. Now, France Télécom now has to go abroad to find competitors to Alcatel, the dominant local manufacturing group.

Competition from abroad is also compelling France Télécom to open up its purchasing policy. Companies like British Telecom and American Telephone & Telegraph are not free to compete on France Télécom's home turf, but they could offer large multinational clients a better service and so persuade them to locate their tele-

communications hubs elsewhere.

France Télécom cannot therefore afford to fall behind other operators in the race to modernise networks. So if domestic suppliers do not have the relevant piece of equipment, it is forced to buy from foreign companies.

Nevertheless, the industrial policy of the past decade has meant that Alcatel is now in a strong position to fend off competition from abroad except in specialist new areas such as mobile communications, intelligent networks, private circuits and fibre-optics. More vulnerable are smaller French manufacturers, such as SAT, which many observers feel will not be able to survive international competition and may be driven into tie-ups with larger foreign groups.

In addition to the law changing France Télécom's structure, there will be new rules spelling out for the first time those areas where France Télécom has to face competition. Under the present legislation, which dates back to 1987 when Louis Philippe was attempting to control the embryonic telegraph service, the Telecommunications Minister has carte blanche to grant telecommunications licences to whomever he wishes.

A monopoly will be maintained on the basic network and phone service. Value added services, such as home

banking, and telecommunications terminal equipment, will remain open competition, although there will still be tough licensing conditions.

It is uncertain, though, what exactly will happen to mobile, satellite and basic data communications - three of the fastest growing parts of the market.

The policy towards mobile communications is probably the most important, because this is the area where France's dirigiste policy has failed most notably. France Télécom executives did not appreciate the importance of mobile communications because they were concentrating on putting in fibre-optic cables and Minitel terminals.

The upshot is that density of mobile phones in France is one fifth of the UK's and one twentieth of Scandinavia. The position is comparable but not consistent with France's general position in telecommunications," says Mr Jean-Jacques Damblanc, head of France Télécom's mobile operations.

Although the policy on mobile communications remains fuzzy, it is basic data communications that have proved the home of contention between Brussels and Paris.

The French government initially wished to maintain a complete monopoly on basic data switching in order to protect France Télécom's public service mission. "If the public service has to be abandoned, then it is not worth the money and the competitors cream-skim all that is profitable, that is the end of the public service," argues Mr Bruno Lasserre, head of the telecommunications regulatory authority.

Now, however, France has softened its position and is proposing that private companies should be allowed to compete but only provided they adhere to strict conditions which will ensure that they do not undercut the public data service. As EC President, Jacques Delors has already indicated in a letter to persuade other member states to back this new line in preference to the Commission's more liberal approach at a meeting of telecoms ministers which takes place today.

Nevertheless, despite the international controversy over basic data, the issue hardly registers with French users. "We do not have any complaint about the availability and prices of public data services," says Mr Berry.

The overall package of reforms now being planned in France may not go as far as economic liberals in Britain or West Germany, which have already embarked on more radical reforms, would like. But, unlike the other two nations, France is reforming its telecommunications structure from a position of comparative strength.

The aim is not so much to put pressure on an inefficient public monopoly which has forgotten how to look after its customers as to give an efficient operator the freedom to stay ahead of the game while retaining a strong public service ethic. When domestic users are so contented, it is difficult for outsiders to carp.

## LOMBARD

# The 'logic' of bosses' pay

By Michael Skapinker

IS THE PAY of Britain's top executives based on rational principles, in which rewards are linked clearly and fairly to performance, or is the guiding motivation nothing more than the desire to be rich?

Evidence for the latter proposition is to be found in the Burton Group's recent announcement of the new salary to be paid to its chairman, Sir Ralph Halpern.

Sir Ralph is not just another well-remunerated executive. He has presented himself as the champion of the highest-paid, arguing forcefully over several years that those who achieve success should be rewarded for it.

Even so, it might seem perverse to single him out for criticism, given that his pay actually fell by £97,000 to £899,000. On the basis of Burton's pay formula, however, which is based on earnings per share rather than remuneration, even further. It did not because of a one-off discretionary payment awarded by the non-executive directors.

Whatever the justification, it would have been better if the Burton formula had been strictly applied. The targets set for Sir Ralph were testing ones. He profited handsomely when he achieved them. He should have accepted whatever pay cut his performance merited. It is payments of this sort which encourage the view that Britain's bosses make up the rules as they go along.

Sir Ralph is a long way from being the worst offender. At least his group's pre-tax profits rose 5.7 per cent, at a difficult time for retailers. Moreover, this is the second year in a row that Sir Ralph's salary has fallen.

There have been instances of chief executives accepting pay rises when their companies' profits have fallen. And there have been many cases of executives' receiving percentage increases far in excess of their companies' rise in profits.

Britain's well-paid say that their pay increases have nothing to do with them. It is the non-executive directors who decide. But no-one can be forced to accept a pay increase. A chief executive who turned

one down would demonstrate a level of leadership that has been lacking in British boardrooms.

The most unfortunate aspect of the way UK chief executives have dealt with their pay is that they have spoiled a perfectly respectable case.

There was something perverse about a country which took the newly-rich to its heart only if they made their money by playing football or singing pop songs, rather than by manufacturing and selling goods. British executives were poorly paid compared to their counterparts abroad.

Most important, at a time when Britain desperately needed to become more competitive, there was every reason to tie top management's pay to results.

Having established the rules by which their remuneration was to be calculated, executives should have been prepared to play by them. Their obligation to do so was all the greater because there was no effective check on their ability to pay themselves whatever they wanted. Non-executive directors have not in general shown a willingness to stand up to well-paid chief executives. Although institutional shareholders have been able to impose some restraints on the size of share options offered, individual shareholders who have complained about excessive pay increases have usually been ignored.

Having obtained such power for themselves, too many executives have abused it. When their companies' performance did not merit an increase, they shifted the argument and said they should be paid as much as their colleagues in other industries. When they were paid as much as their colleagues in other industries, they complained that they were not paid as much as their counterparts abroad.

They have appeared oblivious to the effect their increases might have on the pay claims of employees, on inflation and on British competitiveness. Some have demonstrated an "I'm all right, Jack" attitude which would have been the envy of a 1970s trade union leader.

## LETTERS

### Dealing with Taurus

From Sir Colin Campbell.  
Sir, Your editorial ("High cost of share deals," December 5) is too facile for the smaller public companies such as ourselves.

We do understand it, the Taurus procedures are designed to retain the competitiveness of the London market internationally, benefiting the practitioners in the market rather than the companies whose shares are traded therein.

We continue to feel it essential that our shareholders have a document of title for their holding, and that whatever process is evolved enables companies to update their share registers weekly.

There has been a tendency in recent years to increase the financial burdens of companies whose shares are quoted; one can foresee a further step in this direction. We very much hope that in the final proposals the two desiderata set out here are catered for without the significant additional costs.

Colin Campbell, James Fleming, PO Box 38, Finlay House, West Nile Street, Glasgow, Scotland

### Benefits in broadcasting

From Mr Patrick Barwise.  
Sir, I was sorry that Mr David Mellor, the new Broadcasting Minister, has started by announcing that he stands personally committed to sell ITV (Independent Television) franchises to the highest bidder (November 25).

He rightly says that this would be the best way of finding out what a franchise is worth - but that is hardly the main concern.

Instead, the UK Government's stated aim is "to place viewers at the centre of broadcasting policy," the very opposite of what this proposal will achieve.

A policy which maximises the tax yield from ITV advertising is bound to reduce ITV programme budgets, which is bound to be bad for viewers and advertisers. The only beneficiaries will be the Treasury and perhaps the BBC.

Patrick Barwise, London Business School, Sussex Place, Regents Park, NW1

### The number you are calling is 1992

From Mr G. McKendrick, International Telecommunications Users' Group.

Sir, Users of public data communication services in Europe suffer from poor service. These services have been designed by technologists with technological needs in mind; they are unfriendly to the normal business user.

They do not generally work well within countries, and they are a disaster when two countries are connected together. There are no standard login or call procedures, and those that exist are largely incomprehensible to the average user. Telecommunications prices are generally expensive, and the tariffs are difficult to understand. Call charges average one in four.

Users believe that competition would enable them to obtain effective services at affordable prices. They believe that countries' telecommunications networks should compete for users, rather than being monopolies. Transpac offers services in the UK - and international operators should be permitted. The European Commission shares this view.

When its recommendations for telecom liberalisation were endorsed by the European Community's Council of Ministers on June 30 1988 it seemed that all was plain sailing. However, the forces of reaction are strong, and in the drafting of the directive to give effect to the Commission proposals the prospects of telecommunications competition are receding, daily.

The EC Council of Ministers met on November 7 and did nothing to correct the draft's deflection from the previously agreed position. They arranged to meet again on December 7, which may be a last chance to get back on the rails.

The development which has changed opinion between June 1988 and now is the change of government in France. This has produced a cooling of enthusiasm for telecommunications liberalisation in that country, and provided strong leadership in the EC for those who were never keen in the first place - particularly Belgium, Greece, Spain and Italy.

These countries have persistently sought to write the rules less liberally than was

intended, to extend them to inappropriate places, and to introduce ambiguity to leave scope for unfavourable interpretation, thus undermining the thrust of the original intention.

This applies not only in the rules relating to data networks but to those which will govern private circuits. User interests in these countries oppose these positions, but have been ignored.

There is an almost equal political balance in the EC debate. The UK, West Germany, the Netherlands, Denmark and Ireland are pro-liberalisation. So, indeed, is the European Commission - and Sir Leon Brittan, the senior EC Commissioner, has been unequivocal in his determination to move in the direction of competition. Hence a deadlock has developed - and this has encouraged the French chairman to propose a compromise solution which would, however, result in the required improvements users seek.

The conditions he proposes would constrain potential service providers, and would not enable the benefits of competitive supply to be realised. His proposed delay - to 1993 - of some beneficial measures is excessive and unnecessary. The compromise suggested is a short move from the unacceptable liberal proposals put previously by the same clique. It still falls far short of what telecommunications users (and the European Commission) expected.

The high profile given to telecommunications problems in the run-up to the single market of 1992 is because it had been identified, early on, as a vital element of the infrastructure to support the Common Market. The Commission has done well, in difficult circumstances, up to now. It will be a great pity if the Commission's foresight and hard work are to be brought to naught - as seems likely - by an unfavourable outcome to the meeting of Ministers on December 7.

G. McKendrick, Director, International Telecommunications Users' Group, 18 Westminster Palace Gardens, Artillery Row, SW1

### The problem is poverty

From Mr Henry Hardman.  
Sir, Your reviewer says that reforms "Award Day" to New York's Aid to deal with world food problems, "if implemented, would presumably ameliorate the situation," but she rightly dismisses them as impracticable (November 23).

Ought we not to go further, and recognise that the problem is world poverty rather than the more emotive "world food needs"? That would help to secure understanding that progress towards lessening it can be found not through commodity support related to farmers, but by financial aid from rich countries to poor.

Henry Hardman, 9 Sussex Square, Brighton, East Sussex

### All in a day

From Captain J.A. Passmore.  
Sir, David Churchill, in his article "Award Day to New York," seems to have got confused with real time and real elapsed body time - whatever that is - when he says that the hot-shot executive will have been up for nearly 20 hours at least if he goes to New York for the day.

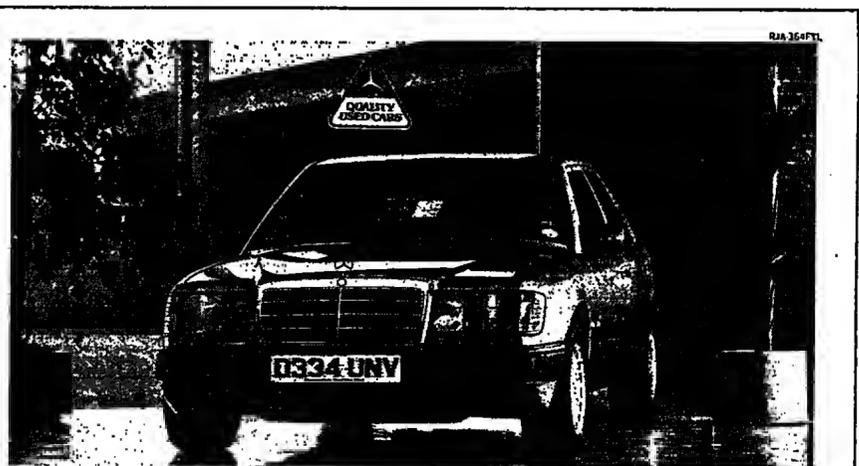
Assuming he rises at 0600, is in his office at 0800, has his meeting in New York and arrives back at Heathrow at 2200, he will be at home before midnight a 17 1/2 hour day; a normal length of day for many businessmen and women.

Jim Passmore, General Manager/Flight Crew, British Airways, PO Box 10, Heathrow Airport (London)

### Fax of matter

From Mr Edward Kellett-Bowman MEP.  
Sir, The proliferation of facsimile machines leads to confusion and expense because people put their fax numbers on letterheads. Very soon, electronic mail numbers will also become commonplace.

May I, through your columns, propose that non-telephone numbers are put in a box on letterheads? Edward Kellett-Bowman, Nuthall Barn, Newnham, Basingstoke, Hampshire



## For those who've never given a second-hand car a second thought

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manufacture. Every process is checked and re-checked until the procedure is perfect. Every component is tested to destruction and Mercedes-Benz actually provide the testing equipment for some of their external suppliers. Materials are subjected to the equivalent of years of wear testing in laboratory simulations that operate 24 hours a day, 7 days a week.

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## PHILIPPINES REBELS HOLD OUT

# Mrs Aquino declares emergency

By Roger Matthews in Manila

THE EMBATTLED government of President Corason Aquino yesterday declared a national state of emergency to combat "the serious social and economic damage" caused to the Philippines by the continuing military rebellion.

Rebels permitted several hundred foreign tourists and businessmen to be evacuated from the hotels in which they had been trapped by four days of fighting. But the rebels, estimated at about 400 men from the crack Scout Ranger battalion, still have control of Makati, the main business and financial district of Manila. Other rebel forces are holding the air force base at Mactan just outside Cebu, the country's second largest city.

Under the state of emergency, Mrs Aquino has power to take over or direct the operations of any company, the activities of which are very broadly defined as "concerning the public interest." Several of the most prominent companies in Manila are either associated with the late President Ferdinand Marcos or with opponents of Mrs Aquino.

She has also invoked existing powers to prevent the media from reporting statements by the rebels, or giving any information about government troop deployment. Two radio stations, one in Manila, the other in Cebu, have been taken off the air under regulations which allow the government to close down any organisation deemed to be opposing or inciting treason. The government denied the new regu-



A bus takes tourists and businessmen to safety in Manila after they were allowed through by rebels yesterday

lation amounted to censorship. Several hours after the state of emergency was declared local television stations carried an interview with one of the rebel officers, who again demanded the resignation of Mrs Aquino.

Presidential aides emphasised yesterday that the measures taken stopped well short of martial law, which is associated in all Filipino minds with

der talks with the rebels fail it may be almost impossible to dislodge them militarily. A member of the National Security Council said that a military solution was not an option because of the loss of life and heavy material damage which would result from any attempt to storm the 18 or so buildings they occupy.

"We continue to expect that when they see no reinforcements are coming they will return to barracks," he said, emphasising that, because of military sensitivities, the word "surrender" could not be used.

"The men we really want to identify are the political prostitutes who have been financing this operation," he added.

Mrs Aquino's adviser also accepted that there was a "public clamour" for government changes and a more activist cabinet. He thought that these demands would soon be met by the president.

A senior American diplomat in Manila confirmed yesterday there was evidence that the rebellion had been carefully planned, with food and ammunition stockpiled in advance in Makati.

Such beliefs have led some officials to speculate that there may be a further stage in the rebellion aimed at more widespread attempts to disrupt the economy. This could take the form of inciting popular resentment over prices, creating supply shortages or sabotaging distribution networks.

The government has already imposed price ceilings on rice and other basic foodstuffs.

## Japanese economic growth set to outstrip forecasts

By Robert Thomson in Tokyo

THE Japanese economy grew 2.9 per cent in the third quarter, suggesting that growth for the year will outstrip most predictions.

Consumer spending has also rebounded after a slump brought on by the introduction of a consumption tax earlier in the year. Figures released yesterday by the Government's Economic Planning Agency showed a second quarter contraction of 0.8 per cent in GNP to be an aberration. The agency had predicted that growth for fiscal 1989 to end March would be 4 per cent, but now plans to revise the figure upwards.

The effects of the 3 per cent consumption tax, introduced at the start of April, have worn off and expenditure rose 2 per cent quarter-to-quarter. Private investment in plant and equipment showed a 7.3 per cent increase, with a 2.1 per cent increase in private housing investment.

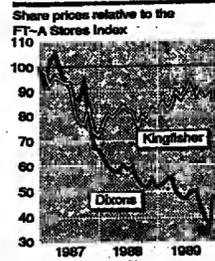
Economic growth for the third quarter totalled 4.6 per cent. Growth of less than 1 per cent in the final quarter will produce an annual figure that exceeds most government and private expectations.

Dr Kenneth Curtis, chief economist at DB Capital Markets (Asia), said that Japan had entered a long-term consumer spending binge akin to that of the US in the 1960s. "In the future, we will look back and regard this as a golden period," he added. "The sustained investment of Japanese companies suggested they were re-positioning themselves for long-term growth, while relatively low public expenditure levels indicate that the Government is ready to 'support the economy on demand'."

Ms Chiharu Sumita, of UBS Phillips & Drew, said that growth in the third quarter was "stronger than expected" and that "private consumption growth was very strong." She predicted a slowdown in the final quarter, and predicts that growth for the year could be around 5 per cent.

"The economy can't maintain this pace for too long. We are looking for a slowdown," she said.

## The ghost of Dixons' past



The jump in Dixons' share price yesterday to 18 per cent above the Kingfisher offer looks doubly surprising. It is by no means clear how the bid is to get past the competition authorities: or if it does, why Kingfisher should have to pay much above its opening shot.

The combined business would have a quarter of the UK market, five times the share of the nearest competitor, Kingfisher. But when Dixons bid for Woolworth three years ago, it felt it prudent to pre-sell Comet, since then Dixons has bought Wiggins and Kingfisher has bought Laskys.

At 120p, the offer is close to 20 times this year's earnings for a company which faces at least one more year of dreadful trading. Given the history of the contract and seeking to buy towards the bottom of the market, in the process, it risks losing the last of its defensive strength as an asset play. The real question, though, is whether Kingfisher's management is entitled to the market's patience for the two or three years it would take for the strategy to pay off. On its record to date, the answer might be yes.

premium should be 20 to 30 per cent. The tricky bit is whether the market will stay relaxed for long enough about the economy and the kind of results that Saatchi and Norcross produced yesterday for small shareholders to take their profits.

### Norcross

Just two years ago Norcross narrowly escaped a bid from Williams Holdings. It has done little to justify shareholders' faith since then and is now capitalised at less than 60 per cent of the value of the bid. The fact that fat still needs to be shed in the ceramics division makes one wonder whether the bid delivered a sufficient shock to the company's system. Michael Doherty, appointed as chief executive last year, may have been unlucky to hit a building sector slump so early in his tenure. But his bravado in maintaining the interim dividend on earnings down 41 per cent could look foolhardy by the time of the full year figures. Some analysts think that earnings, after redundancy costs, will not cover a maintained final. The bid rumours have only started again.

### British Land

Ritblat's First Law of real estate finance sounds straightforward enough. Tax-driven some of its finer points may be; but Mr Ritblat's plan to break British Land in two and sell some £700m of investment properties rests on a slender proposition. If the stock market chronically under-rates large property companies, the management must rescue lost shareholder value; if that means semi-liquidation, so be it.

At second glance the picture is less clear. The scheme is certainly tax-efficient, owing to

the 1987 Finance Act, which allowed companies to offset their ACT liability against capital gains tax. The degree of equity between all parties is less certain. If everything goes to plan Mr Ritblat, his family and partners will end up in late 1994 with 27.5 per cent of New British Land, the new company carrying on British Land's development programme. This arrangement is a much better deal for public shareholders than LWT's recent restructuring scheme; but it also looks like the plan's most obvious weakness: in institutional eyes.

Not that Mr Ritblat's scheme is a bad one. Rough calculation suggests the 197 British Land companies' shares could trade at well over 250p aggregate, compared with November's level for British Land of 250p or so. That gains, including other property companies from following suit, may simply lie in their more complex finances. It is hard to see Land Securities, with £700m of mortgage debentures in issue, juggling its structure so adroitly.

### Saatchi

While Saatchi's full year results were not much worse than expected, the share-price reaction was a good deal better. Even before the kitchen-sink type write-offs, attributable profits were only £3m; after them, the net loss was equal to one eighth of the group's market value. The shares rose 15p to 250p, giving a prospective multiple of around 30 and a yield of under 5 per cent - oddly generous for a company with negative net worth and net debt at over £150m and rising.

If the speculators are pushing the shares in hopes of a bid, they could be disappointed. Too much needs doing with the group as it stands. In particular, the consultancy businesses need to be sold as a matter of some urgency. Although Saatchi professes itself relaxed about interest cover, it cannot at present be much over twice. Depending on the prices fetched and the timing, the remaining advertising business could still have its attractions. But to justify anything like the present share price, the recent management changes must be seen to be effective. Like Amstrad, Saatchi appears to have grown beyond the limits of its original management; shrinking it back to size is a task for the new team.

## Fed figures suggest US economic slowdown

By Lionel Barber in Washington

MORE evidence of a slowdown in the US economy, particularly in manufacturing, appeared in the Federal Reserve's Beige Book regional survey published yesterday.

The survey said that the majority of industries reported weakness in manufacturing activity, though there were pockets of strength in construction, agriculture and several energy industries. Two districts reported an overall softening in local economy.

The report said that prices, however, were reported to be flat or slightly higher. Several districts mentioned the continuing escalation of medical insurance costs.

The Beige Book is the summary of economic activity prepared for use at the Fed's Open Market committee meeting. The next meeting is scheduled for December 12-13.

Evidence of a slowdown in the US economy has been mounting recently. This week, reports showed that new factory orders and sales of new homes dropped last month. Last week, the index of leading indicators fell 0.4 per cent, matching an unfavourable report from the National Association of Purchasing Management.

Economists and financial markets are now looking to see whether the Fed, through its money market operations, will lower interest rates to revive the economy.

The latest Beige Book report says that consumer spending has varied among districts, with retail sales mixed throughout the country.

Weakness in the car industry and among suppliers was commonly blamed for the slowdown being felt in areas such as Philadelphia, Boston and lastly Cleveland "where the pace of activity was strong for the first nine months of the year."

On the brighter side, capital spending in Atlanta continued to rise in the chemical, metals, wood and pulp, and industrial equipment industries. While, in still-depressed Texas, firms in Dallas producing oilfield equipment and chemicals increased their sales.

Trade deficit forecast, Page 6

## Civic Forum to have veto on new Czech cabinet make-up

By John Lloyd and Leslie Colitt in Prague

A NEW Czechoslovak government was being formed yesterday in negotiations between Mr Ladislav Adamec, the Communist Prime Minister, and the Civic Forum opposition.

Under pressure from a vast demonstration on Monday and a threatened strike, Mr Adamec is to propose today a new cabinet to the praesidium of the National Front, the body which brings together the Communist party with its formerly allied parties, the Socialist and People's parties. Civic Forum submitted a series of proposals for the reshuffle.

At the same time, Mr Josef Bartonick, chairman of the People's Party, has proposed that the new government be split 50/50 between members of all parties including the Communist party and non party members.

Mr Adamec last night protested that the conflicting pressures on him could prove too great. In a televised address, he threatened to resign if the government he is expected to announce tomorrow is not accepted.

Mr Vaclav Havel, the playwright, who led the Civic Forum delegation at the meeting with Mr Adamec, said the Prime Minister had promised to propose government changes to Mr Gustav Husak, the President, today - but only after he had cleared the list with Civic Forum.

The fact that Civic Forum is getting an effective veto over the administration's make-up marks a new success for the three-week-old group.

Discussions within Civic Forum on a replacement for Mr Husak, whose resignation it has demanded, centred yesterday on three names: Mr Adamec, Mr Havel, and Mr Alexander Dubcek, the Communist leader deposed after the 1988 Soviet invasion.

Mr Adamec's recently formed "government of experts" disappointed both Civic Forum, Public Against Violence (the Forum's parallel organisation in Slovakia), many Communist party members and, apparently, most citizens.

Only five non-Communist ministers were appointed out of 21, none in senior positions.

In an earlier meeting with the Forum, Mr Karel Urbánek, the Communist party leader, appeared to support a reshuffled cabinet when he said - according to Mr Havel - that he supported Forum's proposal that the Government "would consist of young, able people who are experts and are not divided."

Mr Urbánek promised that the party-controlled Workers' Militia had deposited their weapons in army stores and would act only as a force to deal with national emergencies. He added that the STB secret police had "lost its purpose," and that the Communist party "realised the deeply rooted mistrust of people against it."

The power structures of the party and government continued to topple. Five hardline members of the Slovak National Council resigned, including Mr William Salgovit, a signatory of the appeal to the Warsaw Pact to invade in 1968.

Land prices in Tokyo surge again after lull

By Stefan Wagstyl in Tokyo

LAND PRICES in Tokyo are rising again after an 18-month lull, in spite of measures by the Japanese Government to control increases and stamp out speculation.

Japanese estate agents say sharp price rises in provincial cities, catching up with past increases in Tokyo, could stimulate a new round of price rises in the capital.

However, the general view is that urban land is unlikely to triple in value in the 1990s as it has in the 1980s.

Many agents foresee a period in which buyers become increasingly selective, seeking well-sited properties and ignoring those that they might have bought at the height of the speculative boom two years ago. The estate agents' views will be tested at a more government action to increase the supply of land to the market and stem demand in large cities. So far, the Government has largely relied, with some success, on pressure on banks to cut real estate lending.

However, the Government is now expected to consider tougher measures, including a revision of tax-breaks on farm land in urban areas. Mr Toshiki Kaifu, the Prime Minister, yesterday agreed to hold a special cabinet meeting in the next two weeks on land issues.

The Japan Real Estate Research Institute, a private research centre, said Tokyo prices had risen by 0.4 per cent for commercial land and 0.8 per cent for residential land in the past six months after 18 months of steady decline. Prices in the central shopping area of Ginza and in Marunouchi, the business district, rose 2.8 per cent. However, in the same period, prices in the Osaka region have jumped between 20 and 21 per cent.

The Japan Real Estate Companies Association said yesterday it was very concerned that increases in provincial cities would feed through to Tokyo.

A spokesman said prices in Osaka, traditionally 60 per cent of those in Tokyo, were now closer to parity. The association forecast Tokyo prices could rise 5 per cent in the next year, but increases in prime areas could be higher.

## Bush to approve renewal of voluntary steel quotas

By Nancy Dunne in Washington

PRESIDENT George Bush this week will sign legislation authorising a 2½-year renewal of a US "voluntary" quota programme which will resubmit the shares of the US imported steel market.

Under the programme - details of which are expected to be announced today - the US will cut Japan's quota allocation, while giving higher shares to Brazil, Mexico and other Third World producers.

Mrs Carla Hills, the US Trade Representative, is also expected to announce several agreements by signatory countries to phase out or ban subsidies of their steel industries. US officials expect these agreements to be folded into a permanent agreement under the Uruguay Round of international trade talks.

The steel legislation also contains a provision altering a surtax on petroleum products, which was found illegal under the General Agreement on Tariffs and Trade.

## UK water sale oversubscribed

Continued from Page 1

going to, but that's simply nonsense."

The exact level of oversubscription will not be announced until next Monday, at the same time as the Government will make known the different ways that the 10 companies will allocate shares.

Although stock market dealings are to start the next day, December 12, shareholders will have to wait until just before Christmas before receiving share certificates.

Arrangements whereby shares are clawed back from overseas investors and made available to the public depend on how widely it is triggered when an offer is more than 2.25 times subscribed by the public. The public could own a maximum of 47 per cent of the shares on offer.

On the indications of the queue in the City of London, people from all walks of life, not all of whom agree with the principle of selling off the water companies, have proved keen to benefit from the flotation.

Mr Dave Robbins, a videotape editor, said: "I disagree with privatisation on principle but if the Government is going to give money away I might as well cash in on it."

By no means everyone was buying the shares with the aim of a quick profit.

A female newspaper-seller said: "This is the first time I've done this - I was told there'd be a queue, but not this long. I'll probably hold on to the shares."

## Summit agrees on Germany

Continued from Page 1

manys for reunification, he added: "The problem is there. Right now it has crystallised to a great degree."

He warned that the process towards creating a "common European home" could be upset if the question of German reunification was pushed too far.

Mr Mitterrand expressed his understanding of the German desire for reunification, but said "there can only be democratic changes, only peaceful changes."

### WORLD WEATHER

Area	Temp	Wind	Cloud	Pressure	Humidity	Sea
Algeria	18	10	10	1015	65	1
Athens	15	10	10	1015	65	1
Bombay	28	15	10	1015	65	1
Buenos Aires	15	10	10	1015	65	1
Calcutta	28	15	10	1015	65	1
Cairo	18	10	10	1015	65	1
Colon	28	15	10	1015	65	1
Hankow	15	10	10	1015	65	1
Hong Kong	25	15	10	1015	65	1
London	10	10	10	1015	65	1
Lyons	10	10	10	1015	65	1
Manila	28	15	10	1015	65	1
Medan	28	15	10	1015	65	1
Osaka	15	10	10	1015	65	1
Paris	10	10	10	1015	65	1
Perth	15	10	10	1015	65	1
Rangoon	28	15	10	1015	65	1
Seoul	10	10	10	1015	65	1
Singapore	28	15	10	1015	65	1
Tokyo	15	10	10	1015	65	1
Yokohama	15	10	10	1015	65	1

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INSIDE Tiphook manages to double its money

Tiphook, the UK container rental company involved in a long-running \$1.02bn bid for Sea Containers, more than doubled pre-tax profits to £10.1m in the half-year to October 31, against £4.5m in the equivalent period. Mr Robert Montague (left) Tiphook's chairman, said the changed economic climate had not had an adverse effect on Tiphook's core business in the first half, thanks to strong financial controls. Page 29

Shares driven up the wall

As East Germans clamoured over and through the Berlin Wall last month, the West German bourse rose to the occasion. It celebrated with a surge in trading activity and rising share prices. Volume climbed to near record levels during the three days that straddled the breaching of the Wall. This left Germany as the only European market showing an increase in turnover compared with October, writes Alison Maitland. Page 44

Shopping for Bloomingdale's

As Christmas shoppers pour into Bloomingdale's, the future of the prestigious US department store chain is being decided behind closed doors by people with no time to join the queues. Bloomingdale's was put on the block in September by its parent, the Canadian property and retailing group Campeau and tomorrow will see the first round of bids. Already, writes Karen Zagor, there are reports that offered prices will fall short of Campeau's expectations. Page 29

Where is the US cavalry?

Perkin-Elmer, a medium-sized instrument maker, is one of the few remaining US companies making the machine tools that semiconductor companies use to manufacture microchips. Its latest product, the MicroScan, puts it at the front of a field which is rapidly becoming international. Why then is the US on the point of permitting the group to sell its semiconductor unit to a foreign, and almost certainly Japanese, company? "How many such firms do we have to lose before it becomes important?" says Dr Robert Coyne (left), president of the US semiconductor company Sematech and co-inventor of the silicon chip. Page 35

Market Statistics table with columns for various market indicators and their values.

Companies in this section table listing various companies and their share prices.

Chief price changes yesterday

Table showing price changes for various commodities and currencies.

Saatchi cuts final dividend by 7p

By Alice Rawsthorn in London

Saatchi & Saatchi, the communications and consulting group, has ended the toughest year in its history by cutting its final dividend from 8.5p to 1.5p, reducing the total dividend from 18p to 9p. After nearly two decades of growth Saatchi plunged into problems last year. Its communications companies were hit by rising costs and it experienced difficulties with its management consultancies, which it put up for sale to the summer. The group announced a fall in pre-tax profits to £51.3m (2116.4m) on revenues of £973.5m (2962.2m) in the year to September 30. It tumbled into an overall loss -

after tax, exceptional and extraordinary items - of £58.5m from profits of £73.1m last year. Fully diluted earnings per share fell to 23.1p (44.8p). Saatchi's shares, which have fluctuated wildly to recent weeks on bid speculation and concern ahead of the results, rose 15p to 283p yesterday. Analysts in London and New York dismissed yesterday's increase as speculative buying. The group described 1988 as "a tough year when many difficult decisions have been made." It has cut costs in communications and decided to withdraw from consulting. Saatchi has also reshuffled senior management. Five directors have left the main board this year. Two months ago Mr Maurice Saatchi, the chairman, who founded the company with his brother Charles, relinquished his role as chief executive to bring in Mr Robert Louis-Dreyfus from the Dun & Bradstreet market research group. Mr Charles Scott, who worked with Mr Louis-Dreyfus at D&B, is joining Saatchi as finance director. Mr Richard Dale, advertising analyst at James Capel in London, said Saatchi had made a "clean sweep" in its restructuring programme and should be able to concentrate on revenue

growth once the consultancies were sold and its borrowings reduced. Saatchi began "a major cost control programme" in the second half. It has reduced central staff by 25 per cent and closed its corporate office in Washington. It also cut costs in the communications division - which includes advertising, public relations and design - by 5 per cent to the fourth quarter. This helped to increase trading profits from communications to £47.2m in the second half, double those of the first half and ahead of last year. The cost of restructuring and rationalising the communications companies represented £29.5m of its exceptional items of £39.5m (£21.6m credit). Saatchi has also reorganised its consultancy interests. The cost is expressed as an extraordinary item of £22m. This includes writing off £10.7m on its investment in the Information Consulting Group, which it has agreed to sell to McKinsey for £12m (£7.7m). The consultancies were put up for sale in June but so far Saatchi has sold only three small companies. Analysts expect Saatchi to raise between £150m and £300m from the disposals, but it is said to be struggling to find buyers for the bigger businesses. See Page 19 Background, Page 22

Kingfisher turns the tables on Dixons with £568m bid

By Maggie Urry in London

BATTLE broke out in the British high street yesterday when Kingfisher, the retail group, turned the tables on Dixons by launching a hostile takeover bid worth £568m (£890m) for the electrical goods retailer. In 1988, Kingfisher, then called Woolworth, fought off a £1.8m bid from Dixons in a battle remarkable for the acrimony between the personalities involved. Mr Geoffrey Mulcahy, chief executive of Kingfisher, said he telephoned Mr Stanley Kalms, chairman of Dixons, early yesterday and that the conversation was "extremely courteous." Mr Mulcahy said the bid was "certainly not revenge. We believe in doing things that are commercially sensible."

Dixons, however, said that the bid was "an opportunistic attempt to deprive shareholders of the benefits of the longer term growth prospects of the company." It said the bid would be "strongly resisted." The dramatic reversal in the fortunes of the two groups follows the sharp decline in the market for electrical goods where Dixons, which also owns Currys, is the market leader. The squeeze on consumer spending from high interest rates has particularly hit retail sales of high-priced, household goods. In the electricals market there has been a rash of price-cutting and a lack of exciting new products to entice shoppers.

Kingfisher, through Comet, is the second largest player in the electrical market. It also owns the Woolworth variety-store chain, along with B & Q, the leading do-it-yourself retailer, and Superdrug, the market leader in the drugstore sector. Kingfisher has seen a marked revival since it was formed through the buy-out of Woolworth in 1982. Mr Mulcahy described the bid as a strategic move which would give his company market leadership and enable it to restructure a large part of the electrical retailing sector into a "more efficient and profitable business." He said he did not expect the bid to be referred to the Monopolies and Mergers Commission. See Page 18

That's the wonder of Woolworth's revenge

Maggie Urry explains how the UK stores group has risen to bid for its one-time predator

The amazing reversal of fortunes in the sale of Kingfisher and Dixons would provide a plot for the sort of paperback novel businessmen are supposed to read on long aeroplane journeys. In little more than three years the underdog has become the top dog and the biter has been bitten. In the summer of 1986 Kingfisher - then called Woolworth - was fighting for its life against a bid from Dixons. It was one of the most hotly contested British takeover battles. Yesterday's reversal of roles illustrates the contrasting fortunes of the two groups since then. In particular, it underlines the success of Kingfisher's strategy of diversifying away from the Woolworth variety stores - a strategy in its infancy at the time of the 1986 bid. It also demonstrates how rapidly an acquisitive stock market favourite like Dixons can fall from favour when the trading cycle turns against it.

Kingfisher to restructure the electrical retailing sector to its own advantage; rebuilding margins and taking on some excess capacity. When sales recovered Kingfisher would enjoy substantial profits from the business. In doing this it would be repeating the pattern it has adopted in other sectors since it began its move away from reliance on the tired old Woolworth variety store formula. In each chosen sector the aim has been to make itself the market leader. Woolworth, formerly a quoted company controlled by an American parent, was bought out in 1982 by a management team backed by institutions.

security consultant to jail for putting a bug in a biscuit tin to tap the telephones of a man who had left Dixons to work for Comet. That incident took place after the bid had failed in July of 1986. But the bid was not just about personalities. Much heat was generated through attacks and counter-attacks on each side's retail strategies. The bid marked the start of Dixons' problems, and the end of Woolworth's. Dixons profits carried on upwards for a while. And it moved into international retailing by the acquisition of S10, a US power retailer. As one analyst put it "Dixons took its eye off the ball, it got too involved in hiding for Woolworth."



Dixons' Stanley Kalms, (left), and Geoffrey Mulcahy. The Woolworth chain had been run almost into the ground and the new owners began a strategy of revamping the Woolworth stores - concentrating on fewer lines - and building up other retail "brands". B&Q, its do-it-yourself business, had been acquired by the old Woolworth management - in a rare flash of genius - and is now being built into the market leader. Comet, the electrical retail chain, had been bought to 1984 and can now claim to be the leading out-of-town electrical retailer. Though the Dixons/Currys combination holds sway in the high street. In the past few years the group has also built up Superdrug into what is claimed to be the UK's biggest drug stores chain. But when the bid from Dixons came in 1986 this strategy had yet to produce significant results. Dixons, by contrast, was riding high. Beloved of the City analysts, the shares had risen sharply during 1985 and the early months of 1986. Currys had been acquired at the end of 1984 and Dixons' profits were bounding ahead. The consumer spending boom was raging, and sales of electrical goods were one of the main beneficiaries. The bitterness of the battle was underlined within days of the bid being launched when Woolworth issued a writ against Mr Stanley Kalms, Dixons' chairman, claiming "injurious falsehood". Luton Crown Court sent a

NMB Postbank prices shares at Fl 46.50 for partial privatisation

By Laura Raun in Amsterdam

A SHARE PRICE of Fl 46.50 (€22.50) was announced yesterday for about 30 per cent of the shares of NMB Postbank, the newly merged Dutch bank which is being partially privatised through a Fl 1.3bn international offering. The 25m shares are the second largest equity offer and privatisation in Dutch history, following the Fl 1.5bn sale of one-third of DSM, the chemicals company, in September. NMB and Postbank formally merged in October, forming the biggest bank marriage ever in the Netherlands. With total assets of Fl 185bn, the group ranks number four at home and among the top 25 banks in Europe. The issue price was considered generally in line with market expectations, although hardly a generous discount to the closing price of Fl 47 the day before. NMB Postbank's share price closed at an unchanged Fl 47 yesterday, prompting market speculation that it was being snorted. About 45 per cent of the shares are already publicly traded and 84 per cent will remain in Dutch Government hands after the privatisation tranche. Brokers and analysts expect the issue to be heavily oversubscribed by investors in the Netherlands and abroad, drawn by a record Fl 12m advertising campaign aimed in large part at Postbank's 6m account holders. Allotments will be announced on Monday. NMB Postbank is seen by many as a promising partnership between two complementary banks with good growth potential and a solid financial position - pitched at an attractive price. NMB was the third largest com-

mercial bank in the Netherlands with expertise in market niches such as asset trading. Postbank resulted from the 1986 merger of the postal giro system and the National Savings Bank. The biggest challenge, according to many analysts, is marrying the government-owned Postbank with the more innovative and dynamic NMB. The decision against a fully integrated merger has raised questions of how large the cost savings will be, since no more than 200 jobs out of 23,500 are expected to disappear. Mr Wim Scherpenhuijsen Rom, chairman of NMB Postbank, insisted yesterday that "a merger is not a condition for synergy. Activities can be transferred between the two banks and they will share staff." He sidestepped the question of whether NMB Postbank - which has predicted 10 per cent higher earnings in 1990 - would be less profitable than NMB, which has boosted net income much faster in recent years. Admitting Postbank's sensitivity to interest rates, he insisted that it would now be able to offer new services such as securities and insurance broking and foreign currency loans. About 80 per cent of the shares are being placed in the Netherlands, Belgium and Luxembourg, with private investors receiving preferential treatment. The other 40 per cent will be sold to institutional investors abroad. The underwriting syndicate, which is being led by NMB Postbank itself, can use 2m of the maximum 28m shares to cover short positions and thus underpin the price in the after-market. The syndicate is taking a 3 per cent fee.

Chrysler may sell aerospace operation

By Anatole Kaletsky in New York

CHRYSLER, the third largest US motor manufacturer, said yesterday it might sell its aerospace and defence electronics operations, estimated by some Wall Street analysts to be worth \$600m to \$700m. The company suggested that management might mount a leveraged buyout for some or all of these businesses, the most important of which is Gulfstream Aerospace, a leading US manufacturer of business aircraft. Mr Allen Paulson, Gulfstream's chief executive and a main board director of Chrysler, said he had temporarily resigned from these positions to avoid conflicts of interests, while he considered whether to make a bid. Mr Paulson, who ran Gulfstream for many years before selling it to Chrysler in 1985, was thought to have been disappointed by Chrysler's recent decision not to pursue a proposed acquisition of Lear Jet, another business aircraft maker. For Chrysler, the sale of Gulfstream and its other smaller aerospace businesses would reverse the diversification strategy of the mid-1980s, when it was generating excess cash flow, after recovering from near bankruptcy at the beginning of the decade. The company said explicitly yesterday that it was thinking of selling Gulfstream and its defence electronics operations in order to "concentrate resources on the core car and truck businesses". Chrysler insisted yesterday that the proposed sale was not related to any cash needs. But analysts noted that it would mark Chrysler's second major cash-raising exercise this year. In September, the company sold half its interest in Mitsubishi Motors for \$600m, recording an after-tax profit of \$310m. In the next five years it will have to invest around \$14m on modernising its product line, although Mr Lee Iacocca, its chairman, has forecast "fiercely competitive" conditions in the US car market. These factors could result in a cash squeeze, especially as Chrysler does not have the large European operations which are helping to sustain profits at Ford and General Motors, its US rivals. Chrysler is considering a push into the European market, based both on exports and a joint venture with Renault. Ironically, Chrysler's purchase of Gulfstream in 1985 for \$636m was largely funded by the sale of its European operations to Peugeot the following year.

Welcome to all multinationals new to this country. (You're also welcome to use our tax capacity.) Even for multinationals, the cost of setting up a major company in the U.K. is sobering. Acquiring the necessary factories, plant and equipment can mean vast capital expenditure. All prior to profits being made. And hence before the benefit of a substantial tax capacity has been established. So will you have to write off writing down allowances? Not if you use our tax capacity. (Courtesy of The Royal Bank of Scotland Group profits, it's more than adequate to fund your acquisition programme.) Add to this our two decades' experience and commitment to the policy of making the lease fit the business need (not the other way round), and we think you've every reason to be talking to us. While we fulfil an all important task. Listening. So if your company is new to this country (or for that matter simply a business requiring to finance assets of £1m or more) speak to Tom Carr at our head office on 0242 224455 or Bill Lowe at our London office on 01-623 4356. You can expect several things: advice that costs nothing, help towards building a sound financial base and of course a warm welcome. RoyScot Corporate Leasing. IT'S OUR BUSINESS TO HELP YOUR BUSINESS GROW. Royal Bank Leasing Limited. Registered in Scotland No. 98013. A member of The Royal Bank of Scotland Group.

## 1989 FINANCIAL REPORT

Scotiabank

## Consolidated Statement of Income

(Canadian \$ thousands)	1989	1988
For the financial year ended October 31		
<b>Interest income</b>		
Income from loans, excluding leases	\$ 6,231,031	\$ 5,175,209
Income from lease financing	22,282	23,588
Income from securities	868,685	864,205
Income from deposits with banks	638,492	491,711
<b>Total interest income, including dividends</b>	<b>7,860,480</b>	<b>6,374,714</b>
<b>Interest expense</b>		
Interest on deposits	5,282,973	4,044,409
Interest on bank debentures	165,846	65,414
Interest on liabilities other than deposits	336,703	196,949
<b>Total interest expense</b>	<b>5,776,522</b>	<b>4,326,772</b>
<b>Net interest income</b>	<b>2,071,958</b>	<b>2,047,642</b>
Provision for credit losses	665,375	465,000
<b>Net interest income after provision for credit losses</b>	<b>1,176,583</b>	<b>1,582,642</b>
Other income	650,160	657,847
<b>Net interest and other income</b>	<b>2,026,743</b>	<b>2,240,786</b>
<b>Non-interest expenses</b>		
Salaries	916,276	765,937
Pension contributions and other staff benefits	62,961	58,604
Premises and equipment expenses, including depreciation	323,026	288,009
Other expenses	359,417	292,444
<b>Total non-interest expenses</b>	<b>1,661,680</b>	<b>1,403,194</b>
<b>Net income before provision for income taxes</b>	<b>365,063</b>	<b>837,592</b>
Provision for income taxes	135,000	325,300
<b>Net income before minority interests in subsidiaries</b>	<b>230,063</b>	<b>512,292</b>
Minority interests in subsidiaries	6,243	5,648
<b>Net income for the year</b>	<b>\$ 221,617</b>	<b>\$ 506,647</b>
Preferred dividends paid	\$ 34,574	\$ 25,083
<b>Net income available to common shareholders</b>	<b>\$ 187,243</b>	<b>\$ 481,559</b>
Average number of common shares outstanding	185,149,293	175,612,518
<b>Net income per common share</b>	<b>\$ 1.01</b>	<b>\$ 2.74</b>
Common dividends paid	\$ 182,661	\$ 132,561
Dividends per common share	\$ 0.88	\$ 0.76

## Consolidated Balance Sheet Highlights

(Canadian \$ millions)	1989	1988
As at October 31		
Cash resources	\$ 8,750	\$ 8,194
Securities	7,439	7,238
Loans	53,990	50,815
Other assets	10,622	6,428
<b>Total assets</b>	<b>\$ 81,001</b>	<b>\$ 74,875</b>
Demand deposits	\$ 3,828	\$ 3,853
Notice deposits	17,291	15,842
Fixed-term deposits	36,806	36,068
<b>Total deposits</b>	<b>\$ 60,625</b>	<b>\$ 58,563</b>
Other liabilities	14,878	11,626
Subordinated debentures	1,758	1,293
Capital		
—preferred	560	350
—common	2,892	2,823
<b>Total liabilities and capital</b>	<b>\$ 81,001</b>	<b>\$ 74,875</b>

**THE BANK OF NOVA SCOTIA**

Executive Office: 1,224 offices in Canada, the Bahamas, the Caribbean, Puerto Rico, Africa, Asia, Europe, Hong Kong, Dallas, Bombay, Boston, Buenos Aires, Cebu, Caracas, Chicago, Cleveland, Dallas, Edinburgh, Frankfurt, Geneva, Hong Kong, Houston, London, Manila, Mexico City, New York, Panama, Perth, Phoenix, Portland, Toronto, Tokyo.

Branches: 44 King Street West, Toronto, Canada; 1000 Bay Street, Toronto, Canada; 1000 Bay Street, Toronto, Canada.

Notes 1: The Consolidated Financial Statements have been prepared in accordance with the Bank Act and include the assets and liabilities and results of operations of the Bank and its subsidiaries. Investments in affiliated companies are accounted for on the equity basis.

Notes 2: The Shareholders' Auditors have reported on the Consolidated Financial Statements of the Bank as at and for the year ended October 31, 1989. Their report is included in the Annual Statement.

Notes 3: The Shareholders' Auditors have reported on the Consolidated Financial Statements of the Bank as at and for the year ended October 31, 1988. Their report is included in the Annual Statement.

Notes 4: As at October 31, 1989, 187,994,228 common shares were issued and outstanding (October 31, 1988: 183,824,661). The per-share statistics have been based on the daily average of equivalent fully paid common shares.

## Bids for Bloomingdale's set to miss \$2bn target

By Karen Zagor in New York

THE FIRST round of bids for Bloomingdale's, the prestigious US department store chain, is due tomorrow, and there are already reports the offered prices will fall short of Campeau's expectations.

Campeau Corporation, the highly-leveraged Canadian property and retailing group, put Bloomingdale's on the block in September to cut its huge debt burden and try to relieve its cash flow problems. At the time, Campeau had hopes of getting as much as \$2bn for the Bloomingdale's chain. But analysts believe the price tag for the division is unlikely to be higher than \$1.5bn, and it is possible that the bids will come in at under \$1bn.

If no more than \$1bn is offered for Bloomingdale's, it is likely that Campeau will sell the division off the market and try to sell one or more of its other store divisions. Among

the possible suitors for Bloomingdale's is Japan's Tokyu Department Store, part of the huge Japanese transportation, retailing and leisure group which has the same name. Three other Japanese store groups are said to be interested in Bloomingdale's.

Other contenders for the group include Mr Marvin Traub, Bloomingdale's chairman and the sentimental favourite, and Mr Joseph Brooks, who bought the Ann Taylor women's clothing chain from Campeau. There is also said to be interest from Europe. Investors are already skittish about Campeau's US holdings. Moody's Investors Services has downgraded its credit ratings for Campeau's Federated Department Stores and Allied Stores to CAA, "about one step away from bankruptcy" according to Ms Pam Shilling, an analyst at the New York

credit-rating company. Dun & Bradstreet, the credit-rating company, has said it can no longer provide its clients with guidelines on shipments to the Campeau stores.

This may have an impact on shipments for spring sales, but should not affect important Christmas sales. Factors, the financiers of the apparel industry, who check and guarantee credit, and provide advances against accounts receivable, have been keeping a tight rein on deliveries to the Campeau stores since Bloomingdale's was first put on the market.

According to one analyst, a number of smaller vendors have already stopped shipping to the Campeau stores and some merchants are demanding cash on delivery.

"We are continuing in a very prudent manner," said Mr John Brookler, vice-president of marketing for Heller Financial, one of Campeau's factors.

## Control Data names new chief

By Frederick Oram in New York

CONTROL Data has appointed Mr Lawrence Perleman chief executive, giving him the reins to lead the struggling computer hardware and services group.

He succeeds Mr Robert Price who led the company through a hefty restructuring in the mid-1980s which has failed so far to pay off through a return to solid revenue and profit growth.

Mr Price, who remains chairman, had announced his intention in October to step down as chief executive. The company launched a search for a replacement, but it was widely assumed Mr Perleman, president and chief operating officer since last December, was the

leading candidate by far. Mr Perleman, 51, joined the Minneapolis-based company in 1986 to lead a unit of the company's scientific and engineering applications.

Control Data sold Imprimis earlier this year to a competitor, Seagate Technology, a move for which Mr Perleman felt a "combination of sadness and vindication," he said yesterday.

The money from the sale has left Control Data in a stronger financial position and under no pressure to make further disposals. Now "we're making

decisions from a strategic and not a financial perspective," Mr Perleman said.

According to one analyst, the company's growth in the area of computer-based services. Once a leading supplier of hardware, notably supercomputers and disk drives, the company's main line of equipment now is Cyber mainframe computers aimed particularly at scientific and engineering applications.

He said he is seeking to instill three main characteristics in the company: high profitability; products and services which lead their markets and which are hard for competitors to challenge; and an employee oriented environment.

## James Hardie earnings rise

By Bruce Jacques in Sydney

JAMES Hardie Industries, the diversified Australian building products group, has shown benefits of return to core businesses by hoisting earnings in the September half.

The company has declared a one-for-eight bonus issue and higher dividend after lifting operating profit 30 per cent to \$422.2m (94.5m). The payout is up from 9 cents to 10 cents a share.

The result was achieved despite a sales dip of almost 30 per cent, reflecting the separate floating last year of the Spicers Paper group. Directors said sales excluding Spicer rose 14 per cent to \$4644m in

the half. Bonus shares will be paid after the interim payment, scheduled for February 9 1990.

Hardie managing director, Mr David Macfarlane said the latest result represented a 23.5 per cent increase in earnings per share to 18.4 cents.

"This is the fifth consecutive year in which we have achieved a substantial improvement in operating profit for the first half of the year," he said. "This rise is the largest and reflects the benefits of restructuring our operations."

At Australian stock markets also continued to mark down

shares in Bond group companies, with the flagship Bond Corporation down 5 cents to 15 cents amid reports that the Western Australian State Government may launch wind up proceedings against the company today. Bond Media shares slipped 5 cents to 12 cents, just 2 cents above the 10 cent-a-share price implied in the proposed offer for the group from Mr Kerry Packer. Bell Resources shares fell 2 cents to 45 cents, with Friday looming as the next deadline for the Bond group to formally begin its brewery sale to Lion Nathan of New Zealand.

## Huffington to sell gas field share for \$1bn

By John Murray Brown in Jakarta

A \$1BN STAKE in an Indonesian gas field is up for sale following the announcement last week that Mr Roy Huffington, the Texas millionaire, is selling his privately-owned company, Huffco.

The sale, being handled by Goldman Sachs of New York, includes a 20 per cent stake in the Bontang gas production contract in East Kalimantan in partnership with Union Texas and Ultramar, of the UK.

The production contract on the so-called Sanga-Sanga block which expires in 1988 is expected to attract interest from oil majors and Japanese gas buyers. Indonesia ships around 30m tonnes of liquefied natural gas a year under long-term contracts with utilities and gas companies in Japan and South Korea.

## Shearson Lehman coy over Perelman buy-in report

By Janet Bush in New York

SHEARSON Lehman Hutton declined comment yesterday on a newspaper report that Mr Ronald Perelman, chairman of Revlon Inc, was in discussions about making a substantial investment in the Wall Street securities house, 61 per cent owned by American Express.

The New York Times reported yesterday that Mr Perelman was discussing pouring hundreds of millions of dollars into Shearson in exchange for a large stake in the brokerage.

The report quoted sources as saying that he would be able to obtain about 50 per cent of the stock, or about 17.5m shares, if he exercised all his options and that he would have the right to buy the

stock in two transactions from American Express. The New York Times report also said that Shearson was said to be examining other deals, including a possible injection of capital by American Express in exchange for a sale of assets to the company.

There was some scepticism about the possibility of American Express negotiating with Mr Perelman about him taking a substantial stake in Shearson.

It has been known for some time that American Express has wanted to reduce its stake in the brokerage from 61 per cent to below 50 per cent. There have been persistent reports that American Express has been uncomfortable with its exposure

## CanPac to swallow 'poison pill' and take property arm public

By Robert Gibbons in Montreal

CANADIAN Pacific, a subject of takeover speculation this summer, is taking steps to thwart any unfriendly suitor. The company will take its C\$4bn (\$2.5bn) property arm, Marathon Realty Company, public and will itself swallow an elaborate "poison pill".

Mr William Stinson, president, said he did not know of any predators, but added that Marathon might also adopt a shareholders' rights plan.

CP owns 100 per cent of Marathon. Under the plan it will retain 30 per cent ownership and distribute 80 per cent of Marathon's stock to current CP shareholders. The distribution will be one-for-one, and at no cost.

Marathon stock will then be listed on the Toronto Stock Exchange. This will allow CP holders to trade the shares if they wish and provide an independent market valuation.

Marathon's huge Canadian land holdings are being developed at a faster pace and some may be sold.

CP's portfolio includes 35 office buildings totalling 11m sq ft of leasable area and 30 shopping centres totalling 13m sq ft. It also has vast land holdings and substantial industrial properties.

Mr Stinson said the present market value of CP shares seriously under-values the Marathon assets. The distribution will reflect true values more effectively. The distribution will take place in May 1990, if shareholders approve the plan at the next annual meeting on May 2.

CP said the book value of Marathon's assets was about C\$2.1bn, but internal estimates indicated that its current market value exceeded C\$3bn.

With CP's own poison pill, each CP shareholder will be entitled to buy additional shares at a 50 per cent discount to market if an unwanted suitor buys 10 per cent or more of the CP equity.

The plan would not require the votes of Power Corporation of Canada, which, through a previous standstill agreement, still in effect can own up to 15 per cent of CP's shares.

FRANK B HALL, the US insurance broker, has introduced a \$400m political risk insurance facility for Western companies investing in the Soviet Union and Eastern Europe.

Mr Donald Bell, chairman and chief executive of Frank B Hall, said it is the first political risk insurance programme designed for US direct investments in a particular geographical or political area.

He said the programme, underwritten at Lloyd's through the broker's New York branch, is in response to the political changes going on in the area.

There are now some 1,100 Western companies, including 100 from the US, investing in the Soviet Union and Eastern Europe. The number of joint ventures with US partners grew from 16 to 87 in 1988.

Cover for any single investment is limited to \$100m. It includes general political risks such as strikes and confiscation as well as Western trade restrictions. Premiums are likely to be 1 to 1.5 per cent of the assets at risk.

The Soviet Union has been seeking with some success to attract Western joint venture partners since 1986. This has created interest among Western companies but they are wary of the lack of a definite legal framework and fear a political backlash against liberalisation.

A further problem is that Soviet and East European governments often see joint venture manufacturing plant as being orientated towards hard currency exports.

Western companies look for access to the local market and a proportion of profits in hard currency.

## US broker launches East bloc risk cover

By Patrick Cockburn

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This announcement appears as a matter of record only November 1989

**DM 350,571,000**

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With funds to be used for construction of new World Headquarters and Central Research Facility of

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(Incorporated with limited liability in the Netherlands)

€15,000,000,000

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Unconditionally and irrevocably guaranteed by

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(Established in the Kingdom of Belgium)

Notice is hereby given that for the interest period from 7th December, 1989 to 7th June, 1990, the Notes will carry an Interest Rate of 5.95% per annum.

Interest payable on 7th June, 1990 will amount to €29,685 per €10,000,000 Note.

Agent Bank

**The Long-Term Credit Bank of Japan, Limited**  
Tokyo

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**NEVI A/S NEVI**

DKK 600,000,000 Floating Rate Notes due 1993

Tranche A of DKK 300,000,000

NOTICE IS HEREBY GIVEN that, pursuant to Clause 6(c) of the Terms and Conditions of the Notes, the Issuer will redeem all of the outstanding Notes of Tranche A at their principal amount on 8th January, 1993 (the "Tranche A Redemption Date"), when interest will cease to accrue on such Notes. Repayment of principal will be made upon presentation and surrender of the Notes at the offices of any of the Paying Agents mentioned hereunder. Accrued interest due on the Tranche A Redemption Date will be paid in the normal manner against presentation of Coupon number 13 on or after the Tranche A Redemption Date.

Notes will become void unless presented for payment within twelve years from the Redemption Date.

**Principal Paying Agent**  
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80 Bishopsgate  
London EC2N 4AU

**Paying Agents**  
Kansallis International Bank SA  
4, Rue du Fort Reinsburg  
2016 Luxembourg

Sparekassen SDS  
8, Kongens Nytorv  
Copenhagen 1050K,  
Denmark

Nordfinans-Bank Zurich  
Bahnhofstrasse 1,  
P.O. Box 8022  
Zurich Switzerland

**KANSALLIS-OSAKE-PANKKI**  
London Branch

**NOTICE**

to the holders (the "Noteholders") of  
**U.S.\$250,000,000 8 1/4% Notes Due September 29, 1994 (the "Notes")**

of  
**EXXON CAPITAL CORPORATION (the "Issuer")**  
guaranteed by  
**EXXON CORPORATION (the "Guarantor")**

The Notes are issued subject to and with the benefit of a Fiscal and Paying Agency Agreement dated September 29, 1989 (the "Fiscal and Paying Agency Agreement") among the Issuer, the Guarantor and Citibank, N.A., as fiscal and paying agent.

**SUBSTITUTION OF PRIMARY OBLIGOR**

NOTICE IS HEREBY GIVEN to the Noteholders that, pursuant to Section 6(b) and 6(d) of the terms and conditions of the Notes, with effect on and from December 8, 1989:

(1) Exxon Funding B.V. (the "Successor Corporation"), an indirect wholly-owned subsidiary of the Guarantor, incorporated in the Netherlands and established in 's-Gravenhage, will, pursuant to the provisions of a Supplemental No. 1 to the Fiscal and Paying Agency Agreement, dated as of December 8, 1989, among the Issuer, the Successor Corporation, the Guarantor and the Fiscal and Paying Agent, be substituted in place of the Issuer as the primary obligor in respect of the Notes and the coupons appurtenant thereto ("Coupons") and under the Fiscal and Paying Agency Agreement; and

(2) the Guarantor will confirm its irrevocable and unconditional guarantee of the due and punctual payment of the principal of, interest on and any other amounts payable in connection with the Notes and Coupons.

No new definitive Notes or Coupons will be issued and the existing definitive Notes and Coupons will not be over-stamped or otherwise modified in any way. The Notes will, with effect from December 8, 1989, be listed on the Luxembourg Stock Exchange under the name of the Issuer followed by the name of the Successor Corporation.

A notice containing certain information regarding the Successor Corporation and a copy of the Articles of Association of the Successor Corporation has been lodged with the Registrar of Companies of Luxembourg and is available for inspection at the same office as the Fiscal and Paying Agent, at the same time as the Fiscal and Paying Agent's report and other Paying Agent's report.

**FISCAL AND PAYING AGENT:**  
Citibank, N.A.  
Citibank House  
336 Street  
London WC2R 1HB

**OTHER PAYING AGENTS:**  
Citibank, N.A.  
Avenue de Terwynen, 249  
B-1150 Brussels

Citigroup Investment Bank  
(Luxembourg) S.A.  
12 Avenue Marie Theres  
Luxembourg

Citigroup Investment Bank  
(Switzerland)  
Bahnhofstrasse 63  
CH-8021 Zurich

December 7, 1989  
CITIBANK, N.A. as fiscal and paying agent

**CITIBANK**

INTERNATIONAL COMPANIES AND FINANCE

# Two Swedish banks set to announce merger

By John Burton in Stockholm

SWEDEN'S PKBanken and Nordbanken yesterday announced that they would merge to form a new bank in the Stockholm market. The merger, which is expected to be completed by the end of 1990, would create the largest bank in Sweden, with assets of around SEK2,000bn.

PKBanken, which is the largest of the two banks, has a market capitalisation of SEK1,500bn. Nordbanken, which is the second largest, has a market capitalisation of SEK1,000bn. The merger would create a bank with a market capitalisation of SEK2,500bn.

The merger would also create a bank with a stronger presence in the southern and central parts of Sweden. PKBanken is based in Stockholm, while Nordbanken is based in Gothenburg.

The merger would also create a bank with a stronger presence in the retail banking market. PKBanken has a strong presence in the retail banking market, while Nordbanken has a strong presence in the corporate banking market.

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ing, and the two insurance companies Skandia and Trygghuset. PKBanken, which is 67 per cent owned by the Swedish government, has suffered from sluggish earnings with a profit margin of 15.8 per cent during the first eight months of 1989. Most of the increase in profit during this period, which rose by 15 per cent to SEK2,250m, was due to the acquisition in June of the state-owned investment bank, Svenska Handelsbanken, which specialises in finance for small concerns.

That acquisition was part of PKBanken's strategy to expand away from its traditional customer base of small savers and lending to local governments and housing authorities. It also bought Sweden's largest brokerage house, Carnegie, last year to strengthen its securities operations.

# Trading in Charterhall shares is suspended

By Ray Bashford in London and Bruce Jacques in Sydney

TRADING in the shares of Charterhall, the investment company headed by Mr Russell Goward, was suspended yesterday as the group's Australian parent held an emergency meeting with its banks.

Westpac, which controls 60 per cent of the Charterhall's capital, told the banks it was considering a possible partial or total takeover, a "substantial" injection of new capital or the disposal of non-core assets as measures to relieve the financial pressure.

The Australian parent's shares have fallen 60 per cent during the past week, threatening to place it in breach of agreements with banks for loans of \$451m (US\$42m).

The 58-year-old Mr Goward took control of Charterhall in 1986 and after selling its oil interests established a down market shoe retailing and clothing manufacturing business.

He paid \$27.2m (US\$42m) for Corah, the Marks and Spencer supplier earlier this year and last August bought Textured Jersey for \$5.7m. Charterhall is holding a 55m loss on its stake in A. Goldberg, the Glasgow retailer, and has this and at least three other shareholdings in UK listed companies up for sale.

Mr Goward requested suspension of trading in Westpac shares in Sydney yesterday after they had reached an all-time low of 34 cents.

However, Australian stock exchanges refused the suspension request, and the shares subsequently recovered to 38 cents, down 2 cents on the day.

Consolidation of Charterhall has weakened the Westpac balance sheet, which carries more than 40 per cent of its stated \$458m worth of assets as intangibles. Inclusion of Charterhall also more than tripled the company's debt to \$431m, lifting gearing from 141 to 185 per cent.

The group's largest remaining bankers are the National Australia Bank, Westpac Banking Corporation and the State Bank of New South Wales.

# Chips are down for Perkin-Elmer

Alan Cane on fears for the future of the US semiconductor industry

There are growing fears in the US that Perkin-Elmer, a medium-sized instrument manufacturer, will be allowed to sell its semiconductor equipment division to a foreign, almost certainly Japanese, competitor.

The sale highlights the profound disquiet over the future of the American semiconductor industry.

The US is already almost entirely dependent on overseas suppliers for the raw materials of the semiconductor industry, it virtually abandoned its memory chip business to the Japanese in the fierce chip price wars of the early 1980s.

The concern is that if its decline in the semiconductor business is allowed to continue, the entire US electronics industry - and, by implication, industries such as defence which are heavy users of semiconductors - will be at the mercy of foreign suppliers.

The potential sale of the Perkin-Elmer unit is also seen as a test case of the Bush Administration's policy towards foreign acquisitions in the high technology sector and as an important indicator of the Government's stance on US competitiveness.

Dr Robert Noyce, president of the US semiconductor company Sematech and co-inventor of the silicon chip said: "The time for action is now. The sale to a foreign competitor of a small American company that specialises in certain key materials or equipment may not seem important, but how many such firms do we have to lose before it becomes important?"

Perkin-Elmer, best known as a manufacturer of high quality analytical instruments, is one of the few remaining US companies making machine tools used in the manufacture of microchips.

A decade ago its projection printer, a machine for imprinting electronic circuit patterns on a wafer of silicon, was the workhorse of the industry. It was indisputably the world leader in semiconductor production equipment.

Today, the position is reversed. Three Japanese companies, Nikon, Tokyo Electron and Advantest lead the world rankings with revenues of \$521m, \$608m and \$385m respectively. They are ahead of the US companies Applied Materials and General Signal while Perkin-Elmer has fallen to eighth place with revenue of only \$300m.

The decline raises important questions about the wisdom of short-term thinking in fast moving and investment-hungry industries like the semiconductor business, and about government support for commercial companies operating in strategic business areas.

Perkin-Elmer is no longer the world leader in semiconductor production equipment because it failed to invest heavily enough in keeping up with advances in technology.

In 1984, it was at its peak through the success of the projection printer, but its competitors were moving to wafer "steppers", a more advanced photolithographic tool which made it possible to print more complex circuitry on the chip surface.

The semiconductor industry was going through a periodic but particularly severe downturn and Perkin-Elmer effectively lost out on a whole generation of production equipment, allowing US and Japanese competitors to take away its lead.

Four years ago, it designed and began to develop an advanced new system "MicroScan" in a bid to take a leading position.

Experts agree the system is exactly what the semiconductor industry needs to manufacture 16 and 64 megabit memories in the 1990s. As a measure of comparison, the most advanced computer systems today are using four megabit memories.

International Business Machines (IBM), the world's largest manufacturer of microchips, has a powerful interest in a healthy US semiconductor production equipment industry, and has contributed to the development of MicroScan and contracted to take a number of the machines.

According to the US marketing consultancy VLSI Research, MicroScan has a three to four year lead on all the competition, including the Japanese. The system will cost \$4m each and a typical semiconductor plant will need 10 to 20. Today's wafer steppers produce revenues of about \$3,600 an hour; the MicroScan should produce \$15,000 an hour.

It is clear, therefore, why leading Japanese manufacturers Canon and Nikon should be

interested in acquiring both the MicroScan technology and Perkin-Elmer's semiconductor equipment marketing channels in the US.

Perkin-Elmer decided to get out of the business when it seemed poised to capitalise on technological mastery, for a variety of reasons.

First, it makes scientific instruments such as atomic absorption spectrophotometers, but never achieves success with subsidiary activities.

Second, it is unlikely to show an adequate return on its investment. The development of MicroScan has cost about \$100m and an additional \$20m to \$50m is needed to refine the product.

Third, it is not convinced it has had or will receive adequate support from the US semiconductor industry.

IBM has been active in supporting Perkin-Elmer's efforts to find a domestic bidder for the business but without apparent success. General Signal, the leading US semiconductor equipment supplier and KLA Instruments are believed to have made bids but neither are acceptable to Perkin-Elmer, according to reports.

The Government position remains unclear. There is a climate of opinion in the White House which rejects anything smacking of industrial policy or of picking winners and losers.

It is an attitude which is anathema to the semiconductor industry. "If this vital industry is allowed to wither away, the nation will pay a price measured in millions of jobs across the entire electronic field," Dr Ian Ross, chairman of the National Advisory Committee on Semiconductors has warned President Bush.

	1980	1981	1982	1983	1984	1985	1986	1987	1988
US	1,347	1,233	1,131	1,499	3,139	2,065	1,445	1,976	2,746
Japan	632	894	921	1,798	3,771	3,233	1,780	2,943	4,485
W. Europe	385	390	370	406	763	689	759	814	788

\* Does not include captive producers of semiconductor devices. Source: Datquest, Inc.

# GAN may buy UK insurer

By George Graham in Paris

GROUPE DES Assurances Nationales (GAN), the French state-controlled insurance company, is in discussions which could lead to the acquisition of General Portfolio, the UK insurer.

GAN yesterday confirmed only that it was in advanced talks with General Portfolio.

It is understood, however, the deal is to be put to GAN's board of directors next week, and the acquisition could put a value of around FF27bn (\$22bn) on General Portfolio.

GAN is the smallest of the three French state-owned insurance groups, with net profits of FF1,950m last year on total premium income of FF23,500m, and has until now been less eager than some other French groups to plunge into large foreign acquisitions.

Within France, it has taken control of Credit Industriel et Commercial (CIC), the state sector federation of regional banks, and is seeking to build synergies between the bank and insurance sectors. Abroad, GAN has tended to buy small companies or seek partnerships with other large insurers, usually taking a minority stake.

Mr Francois Hedbroner, GAN's chairman, has in the past made it clear that he would not seek to acquire a company as big as GAN.

"Our idea is to be present on each major insurance market with a presence that is big enough to be profitable but not too big to control. If we are talking with a big company, we prefer partnership to acquisition - better than pay too much for a control that you cannot exert," Mr Hedbroner said before news of talks with General Portfolio emerged.

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# French detail chemicals change

By William Dawkins in Paris

THE French Government yesterday gave its first official confirmation of the outlines of the reorganisation of the state-owned chemicals industry.

Atchem, the chemicals offshoot of the oil group Elf-Aquitaine, will take control of the plastics and fertiliser businesses involved in the reshuffle, while speciality chemicals will be moved to the smaller

oil group, Total. Mr Roger Fauroux, the Industry Minister, told the National Assembly.

Earlier, he predicted the final details of the reorganisation, designed to make the French state-owned chemicals industry more competitive, would be tied up by next week.

"Each of the major chemicals companies in our country represents half of the activities

of each of the major British or West German companies," said Mr Fauroux. "If we remain in this state, in five years they would instead represent a quarter and would be practically pushed out of the sector," he said.

Among the main details still to be settled are the prices to be paid for the companies being transferred, say officials.

# Mixte sells Cassegrain

By George Graham

COMPAGNIE de Navigation Mixte, the French conglomerate which is currently the target of a FF260m (\$42.7bn) takeover bid from the Faribas investment banking group, has sold its Cassegrain tinne vegetable subsidiary to the Boudelle food group, for around FF900m.

Boudelle has already expanded its activities in Europe, with positions in the West German, Belgian and Dutch vegetable markets.

The Cassegrain activities have been among the weakest of Navigation Mixte's empire. Sales fell last year by 1 per cent.

# Air Canada in GPA plan

By Robert Gibbens in Montreal

AIR CANADA, the national airline privatised early this year, will sell part of its 15 per cent fully-diluted holding in Shannoo-based GPA Group, the world's biggest aircraft leasing company.

Air Canada issued a statement following reports that it would announce the sale of all

its shares in GPA, for around C\$600m (US\$517m) on December 14. Air Canada confirmed it would sell part of its holding but would remain a substantial shareholder in GPA.

Air Canada would apply the proceeds to reduce its more than C\$1bn debt and support its re-equipment programme.

**THE BANK OF YOKOHAMA, LTD.**  
(Kabushiki Kaisha Yokohama Ginko)  
**U.S.\$100,000,000**  
**2 7/8 per cent Convertible Bonds due 2001**  
(the "Bonds")

Notice is hereby given that, as a result of the proposed issuance of 50,000,000 shares of common stock of the Bank at an issue price of ¥1,544 per share by way of public offering in Japan for payment on 15th December, 1989 (Tokyo time), and because of such issue price being less than the current market price per share (as defined in Clause 7(H) of the Trust Deed dated 30th September, 1986 constituting the Bonds) of ¥1,596 at 4th December, 1989 (namely, the date of the Bank's fixing the said issue price), an adjustment to the conversion price for the Bonds will be required with effect from 16th December, 1989 (Tokyo time) pursuant to the said Clause 7(H). As soon as the total number of the shares of common stock of the Bank outstanding at 15th December, 1989, based upon which new conversion price must be calculated, has been ascertained, a further notice will be published setting out the new conversion price as finally determined.

The Bank of Yokohama, Ltd.  
47, Honcho 5-chome,  
Naka-ku, Yokohama, Japan

7th December, 1989

**Wardley Global Selection**  
**Société d'Investissement à Capital Variable**  
**7 rue du Marché-aux-Herbes**  
**L-1728 Luxembourg**

The shareholders are advised that on Thursday 30 November 1989, a dividend of

USD 0,042547 per share of the Australia Equity Fund  
USD 0,022187 per share of the Canada Equity Fund  
USD 0,106232 per share of the Hong Kong Equity Fund  
USD 0,070345 per share of the UK Equity Fund  
USD 0,012921 per share of the USA Equity Fund  
GBP 0,177058 per share of the Sterling Bond Fund  
USD 0,071860 per share of the US Dollar Bond Fund  
USD 0,093673 per share of the International Managed Bond Fund  
GBP 0,200907 per share of the Sterling Reserve Fund  
USD 0,358039 per share of the US Dollar Reserve Fund

has been paid to registered shareholders at the close of business November 24, 1989 and shares were traded ex-dividend after November 24, 1989.

The dividend is payable to holders of bearer shares against presentation of coupon No 3 to:

Banque Internationale à Luxembourg  
2 Boulevard Royal  
L-2953 Luxembourg  
Grand-Duchy of Luxembourg

The Hong Kong and Shanghai Banking Corporation  
1 Queen's Road Central  
HONG KONG

The British Bank of the Middle East  
London, Geneva Branch  
Rue du Rhône 23  
CH-1204 GENEVA

The Hong Kong and Shanghai Banking Corporation (C.I.) Limited  
P O Box 315, Hong Kong  
Branch Building, Grenville Street  
St. Helier, Jersey

The Board of Directors

**NOTICE TO HOLDERS**  
**THE TAIYO KOBE BANK, LIMITED**  
**U.S.\$120,000,000 1 3/4 per cent**  
**Convertible Bonds Due 2002**

NOTICE IS HEREBY GIVEN, in accordance with Clause 7(B)(iii) of the Trust Deed dated 28th September, 1987 entered into between The Taiyo Kobe Bank, Limited (the "Bank") and Bankers Trust Company Limited as Trustee (the "Trustee") in connection with the issue of U.S.\$120,000,000 1 3/4 per cent Convertible Bonds Due 2002 (the "Bonds") and Condition 12 of the Terms and Conditions of the Bonds that, by a merger agreement (the "Merger Agreement") dated 19th September, 1989 entered into between the Bank and The Mitsui Bank, Limited ("Mitsui"), the Bank will merge with Mitsui subject to approval at the meetings of the shareholders of the Bank and Mitsui to be held both on 21st December, 1989 and further subject to completion of all procedures required to be taken under Japanese law. The Merger will become effective on 1st April, 1990 (the "Date of Merger"), will be reported at the meeting of the shareholders of Mitsui, the surviving company, scheduled to be held in late June, 1990 and is expected to be registered in early July, 1990 (the "Date of Registration"). With effect from the Date of Merger Mitsui shall change its name to The Mitsui Taiyo Kobe Bank, Limited. "Mitsui" shall also refer to The Mitsui Taiyo Kobe Bank, Limited, where appropriate.

Pursuant to the Merger Agreement, Mitsui will be the surviving company and the Bank will be dissolved. Shareholders of the Bank will receive 0.8 share of common stock of Mitsui in return for one share of common stock of the Bank. Delivery of the certificates of shares of common stock of Mitsui will commence shortly after the Date of Registration. In addition, Mitsui will distribute to the shareholders of record of the Bank as of the Date of Merger a cash amount (payable shortly after the Date of Registration) equivalent to the amount of dividend which would have been paid by the Bank in respect of the period from 1st October, 1989 up to 31st March, 1990. By virtue of the Commercial Code of Japan and the Merger Agreement, Mitsui will effectively assume the entire obligation of the Bank under the Bonds.

The conversion price of the Bonds will be adjusted with effect from the Date of Merger from Yen 1,597.70 (the conversion price as at the date of this notice) to Yen 1,997.10 per share, in the absence of any further adjustment hereafter up to that date. On or after the Date of Merger, holders of the Bonds will upon conversion receive shares of common stock of Mitsui (or, during the specified initial period, DRs referred to below) issued at such adjusted conversion price. Pursuant to Condition 5(D) of the Terms and Conditions of the Bonds, a supplemental trust deed dated the Date of Merger will be executed between Mitsui and the Trustee, which will contain the required provisions set forth in such Terms and Conditions of the Bonds.

The conversion of the Bonds may be made without any interruption due to the contemplated merger; however, in accordance with the rules and practices of the Tokyo Stock Exchange, the shares of common stock of the Bank will be delisted on or about 25th March, 1990 (the "Date of Delisting") and, on or after the Date of Delisting to the Date of Registration, depository receipts ("DRs") (evidencing entitlement to the new shares of common stock of Mitsui issuable upon conversion at the adjusted conversion price) will be issued upon conversion as replacements for the delisted shares of common stock of the Bank. Such DRs shall be the only instruments available for trading within such period, except that between the Date of Delisting and the Date of Merger no trading of DRs will be made on the Tokyo Stock Exchange.

On and after the Date of Registration, the DRs previously delivered will be replaced by the certificates of shares of common stock of Mitsui which such DRs have evidenced and, on and after such date, certificates of shares of common stock of Mitsui will be issued upon conversion of the Bonds.

The Taiyo Kobe Bank, Limited  
London Branch  
(As Principal Paying Agent)

Dated: 7th December, 1989

**BNP**  
**BANQUE NATIONALE DE PARIS**  
**US\$100,000,000**  
**Floating Rate Notes due 1991**

In accordance with the terms and conditions of the Notes notice is hereby given that the Rate of Interest for the Interest Period 5th December 1989 to 5th June 1990 has been fixed at 12.75% per annum. The interest payable on the relevant Interest Payment Date, 5th June 1990, will be US\$644.58 per US\$100,000 Note.

Banque Nationale de Paris p.l.c.  
Interest Determination Agent

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**01-799 2002**

**US\$125,000,000**  
**First Chicago Corporation**  
Floating Rate Subordinated Capital Notes Due December 1996

Notice is hereby given that the Rate of Interest has been fixed at 8.625% and that the interest payable on the relevant Interest Payment Date, March 6, 1990 against Coupon No. 13 in respect of US\$100,000 nominal of the Notes will be US\$2,156.25.

December 6, 1989, London  
By: Citibank, N.A. (CSSI Dept.), Agent Bank **CITIBANK**

INTERNATIONAL COMPANIES AND FINANCE

Saatchi's trend-bucking comes to an end

Alice Rawsthorn reports on reactions to the advertising agency's end-of-year results

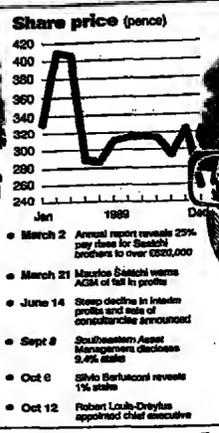
A young account director at Saatchi & Saatchi's London advertising agency sums up his feelings: "All we have ever known is success. For as long as I have worked here we have been the biggest and best agency in town. Suddenly the group is in trouble and no one can really believe it is happening."

scoped more prizes than any other agency at the advertising award ceremonies. The London agency, founded 19 years ago by Charles and Maurice Saatchi, who are brothers, is the jewel in the company's corporate crown. It has dominated London advertising for years and is still one of the most profitable parts of the Saatchi empire.

able to sail through the industry's slumps. "We have had years of bucking trends," said a long-serving employee. "We are used to reading about redundancies at other agencies and saying: 'Hey, we are still taking people on.' We are not very good at standing in the mire with everyone else."

strengths has been its paternalism. I used to be able to look people in the eye and say that we were the best employer around. The saddest thing is that I cannot say that any more. The agency has also postponed its customary October salary increases until January. In the past it has reviewed salaries on a quarterly basis, with the main increases awarded in October, after the end of the financial year.

There is no sign that the group's problems have affected client confidence. So far Saatchi has not lost any major accounts and it has continued to win new business. But the success of an advertising agency - like that of any other people business - hinges on the confidence and commitment of its workforce. One of Saatchi's greatest strengths has been its culture of success.



Charlotte Street. Last month, Marketing Week magazine published a poll of leading advertisers in which Saatchi was voted the best all-round agency. The agency sent a copy of the article and a bottle of Lanson champagne -

a Saatchi account - to every one of the winners. It was a time when the group is facing considerable difficulty. It is hard to see the full extent of its difficulties were revealed in Saatchi's results.

**'We are not very good at standing in the mire with everyone else'**

At one o'clock yesterday afternoon all Saatchi's employees found out exactly how much trouble their parent company is in, when Saatchi & Saatchi's end-of-year results were published in London.

Most of the London advertising agencies have had a difficult year. "Morale is low," said one executive. "All we have heard for months is 'Cut the cost base.' There are rumours of redundancies. Everyone is frightened."

agency, which is structured in a decentralised system of account groups. The consensus is that there have been about 50 redundancies this year. "As the end of the financial year approached, there was more and more pressure to cut costs and squeeze as much profit as we could out of the agency," said one senior executive. "One of Saatchi's

This year a memo arrived in mid-October saying that, in future, there would be one increase in January. "It was all dressed up as an efficiency measure," said one executive. "And they did sugar the pill by giving us our Christmas bonuses. But we all knew it was a way of squeezing costs. Everyone was furious."

"From the very beginning Saatchi was built on an absolute conviction that we were the best agency around," was how one employee put it. "I joined this agency because it was the best, and everyone in the industry knew it," said another.

of press comment the group has attracted does not make life easy for our operators. But despite the group's problems, the operations are still going from strength to strength."

UK ECONOMIC INDICATORS

ECONOMIC ACTIVITY: Indices of industrial production, manufacturing output (1985=100), engineering orders (£ billion), retail sales volume (1985=100), retail sales value (1985=100), registered unemployment (excluding school leavers) and unfilled vacancies (000s). All seasonally adjusted.

Table with 10 columns: Index, 1988, 1989, 1990, 1991, 1992, 1993, 1994, 1995, 1996, 1997. Rows include Industrial production, Manufacturing output, Engineering orders, Retail sales volume, Retail sales value, Registered unemployment, and Unfilled vacancies.

OUTPUT: By major sector: consumer goods, investment goods, intermediate goods (brackets and bars); engineering output, metal industries, textiles, leather and clothing (1985=100); housing starts (000s, monthly average).

Table with 7 columns: Consumer goods, Investment goods, Intermediate goods, Engineering output, Metal industries, Textiles, Housing starts. Rows show quarterly and monthly data for 1988-1997.

EXTERNAL TRADE: Indices of export and import volumes (1985=100); visible balance; current balance (€m); balance of trade (€m); services balance (€m); current account (€m); services account (€m); current account (US\$m); services account (US\$m).

Table with 7 columns: Export volume, Import volume, Visible balance, Current balance, Services balance, Current account, Services account. Rows show quarterly and monthly data for 1988-1997.

FINANCIAL: Money supply M0, M2 and M4 (annual percentage change); bank sterling lending to private sector; building societies' net inflow; consumer credit; all seasonally adjusted. Clearing Bank base rate (end period).

Table with 7 columns: M0, M2, M4, Bank lending, Net inflow, Consumer credit, Base rate. Rows show quarterly and monthly data for 1988-1997.

INFLATION: Indices of earnings (1985=100); basic materials and fuels; wholesale prices of manufactured products (1985=100); retail prices (Jan 1987=100); Retail commodity index (Sept 1981=100); trade weighted index of sterling (1975=100).

Table with 7 columns: Earnings index, Basic materials, Wholesale prices, RPI, Retail prices, Retail commodity index, Trade weighted index. Rows show quarterly and monthly data for 1988-1997.

In 1962 Sharp were the first to tell you how to use a microwave oven.

It's now 27 years since we introduced the first domestic microwave oven. In that time, it has become an essential feature of millions of kitchens throughout Britain.

But today, the microwave is facing a serious accusation: that it cannot kill poisonous organisms like listeria which are present in some foods.

And of course, if a microwave is not used correctly, it can't. Microwaves aren't magic. They are machines, totally dependant on the people who operate them.

If the person gets it wrong, the microwave gets it wrong. So as the UK's best-selling microwave manufacturer, we'd like to offer some rules for getting it right.

For instance, don't forget to allow 'standing time'. This is actually an important part of the cooking process, as it allows heat to be spread evenly without overcooking.

Where possible, try to stir or mix up the food during cooking. Again, this helps to distribute heat more evenly. If your microwave does not have

a turntable, it's important to turn or rotate the food now and then to ensure even cooking. (Which is why all Sharp microwaves have turntables).

If it is supplied with racks, use them. This applies especially to combination/convection ovens; but with these models, remember to use the low rack even when on microwave only. Use of the low rack allows the food to be cooked more efficiently. Which is why all Sharp convection microwaves are supplied with one.

The shape of the dish or pot is important, too. Round dishes let microwave energy spread through the food more evenly. Be especially careful with pre-cooked chilled foods. Stick to reputable brands. Avoid anything that doesn't give full cooking instructions. And never, ever, try to reheat leftover pre-cooked chilled food or previously frozen foods that have been reheated once.

But above all, use your head. At the end of cooking, take a good look at the food. If you are in any doubt about it being thoroughly cooked, the experts advise you to cook or reheat the food to 70°C to kill off any bacteria which may be present.

Recent government tests have indicated that two Sharp microwave ovens did not reach 70°C. However, these models - the R7A50 and R8H50 - did achieve the required temperature when used correctly with the low rack as described above. This has been confirmed by the government test laboratory conducting the investigation.

But the basic rule is if the food still isn't piping hot right through, cook it until it is. Just as you would with a conventional cooker. Which just about sums up what we have always believed.

That a microwave oven is every bit as safe as a conventional cooker as long as it's treated properly. With common sense.



For more information write to Customer Information Centre, Sharp Electronics (UK) Ltd, Sharp House, Thorp Road, Newton Heath, Manchester M10 9BE or phone 061-205 2634 (4 lines open during office hours.)

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INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL APPOINTMENTS Perrier appoints international marketing director

SOURCE PERRIER, of France, the world's largest producer of mineral water, is to switch Mr Peter Thomas to a newly created post of international marketing director in February.

Moore Corp chairman to retire

By Robert Gibbons in Montreal MR JUDSON Sinclair is retiring as chairman of Moore Corp, a Toronto-based international business forms manufacturer.

LAC Minerals chief becomes BIG chairman

THE New York-based International Gold said that Mr Peter Allen, president and chief executive of LAC Minerals, the Toronto-based gold mining parent, has been appointed chairman of BIG following the resignation of Mr Alan Bond, the embattled Australian entrepreneur, who recently sold his 65 per cent stake in BIG to LAC.

BURNS FRY, one of Canada's leading full service investment dealers, named Mr John MacNaughton as its new president and chairman of the executive committee. Mr Latham Burns and Mr D.K. Johnson were made vice chairmen.

EMERSON Electric, the big US electrical group, named Mr Albert Suter, formerly an executive vice president, to serve as president, chief operating officer and a director.

Mr Suter, 54, succeeds Mr James Hardymon, 55, who resigned after 28 years with Emerson to "pursue other opportunities".

Mr William Boyer, executive board vice chairman at West German's Continental, the world's fourth largest tyre group, has taken over as president and chief executive officer at General Tire, Continental's US unit based in Ohio.

Philippines investors fear huge drop in share prices

By Deborah Hargreaves

AMID unrest in the Philippines, investors are nervously awaiting the opening of the Manila Stock Exchange to see whether share prices plunge. The exchange has been closed since last Thursday, as rebels control part of the central business district of the city.

Some fund managers expect share prices to tumble by more than 30 per cent when the exchange opens. In the meantime, the country funds that were set up just months ago to track the performance of the Manila exchange are suffering from the same investor concern.

Three country funds have been set up this year as investors hoped that the stable political situation in Manila would catalyse strong economic growth. And with ironic timing, Nomura launched its First Philippine fund a month ago in a blaze of publicity about the country's long-term potential for overseas investors.

Country funds give foreign investors access to a market that may be difficult for them to penetrate alone. The Philippines has various restrictions on the stocks foreigners can buy - for example, they cannot buy banking stocks - and it can be difficult for them to get to grips with the Philippine exchange.

Futures trading starts on Copenhagen KFX index

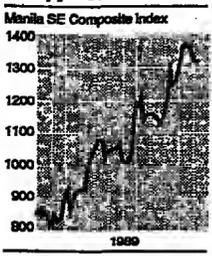
TRADING in futures based on a new stock index will begin on the Copenhagen Stock Exchange today, writes Hilary Barnes from Copenhagen.

Initially trading will take place in three and six month futures, but later nine month futures and European call and put options will be introduced.

The index, KFX, is based on the 25 most liquid stocks with the largest market values. The index is calculated and announced at five minute intervals through the market's electronic trading and information system.

The futures will be traded in multiples of DKK100,000 at face value.

Philippines



Philippines fund. Both the Manila fund and the JF Philippines fund, which are listed on the London Stock Exchange, are trading at discounts to their offer price, although Nomura's fund continues to be at a premium. It is not unusual for country funds to trade at wildly volatile premiums and discounts, but if investors lose confidence in the Philippines Government, the value of shares in the funds could plummet.

Shares in the Manila fund were trading at an average price of \$10.75 at the end of November after a launch price of \$10.40, but dropped to a \$7.50 bid and \$9.50 offer on news of the coup attempt a week ago, and are currently trading at around \$9.50 to \$9.00.

The fund is 51 per cent invested with \$26m of its reserves still held in cash, according to Mr Ray Jovanovich who manages the fund from Banque Indosuez's Hong Kong office.

However, even if the country weathers the crisis and returns to stable growth, a Philippines fund would only represent a small part of any institutional investor's portfolio, given that the entire market has a capitalisation of some \$30m to \$100m compared with around \$700bn in the UK.

"Institutions have to be aware that these are high risk, high reward markets," says Mr Charles Lillis, executive director at Merrill Lynch, who markets many country funds. He says he would not advise putting a large proportion of a portfolio or an individual's money into one country fund.

Country funds have proved popular this year, particularly among Japanese investors looking to participate in the often huge growth of emerging stock markets worldwide.

Mr Charles Fowler at John Govett points out that country funds should form part of a diversified portfolio, to balance political and geographical risk. The fund manager of a Malaysian emerging companies fund that was launched by Hoare Govett this week.

The company has seen the Singapore fund it also manages rise to 14 per cent premium on net asset value from its launch this year.

John Govett is to launch a \$50m to \$100m Hungary fund at the beginning of next year as investors turn their attention to eastern Europe.

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The American Depositary Shares representing Preferred Investment Certificates of

RHONE-POULENC S.A.

have been listed on The New York Stock Exchange Symbol: RP Pr C

Rhône-Poulenc S.A. is the first French registered company to have equity securities listed on the New York Stock Exchange

The undersigned acted as advisor to Rhône-Poulenc S.A.

Merrill Lynch Capital Markets

November 10, 1989

NEW ISSUE

These securities having been sold, this announcement appears as a matter of record only.

December, 1989



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(Kyokuto Boeki Kabushiki Kaisha)

Tokyo, Japan

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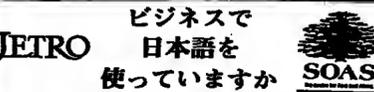
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MALAYSIA

US \$300,000,000 Floating Rate Notes due 1992

In accordance with the provisions of the Notes, notice is hereby given that for the six months Interest Period from 7th December 1989 to 7th June 1990 the Notes will carry an interest rate of 8 1/4 per cent per annum. The relevant Interest Payment Date will be 7th June 1990 and the Coupon Amount per US\$ 50,000 will be US\$ 2,132.81 and per US\$ 250,000 will be US\$ 10,664.06.

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December, 1989

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INTERNATIONAL CAPITAL MARKETS

# Merrill to pull out of dealing in Euro-paper

Stephen Fidler, Euromarkets Correspondent

MERRILL LYNCH, the fourth largest dealer in the Eurocommercial paper market, has informed clients it intends to pull out of the business.

The move, which surprised competitors, follows a period of stagnation in the market. Outstanding Eurocommercial paper is estimated at \$70bn, in line with the level at the year-end.

Merrill's is the most significant withdrawal from the market since Salomon Brothers announced in October 1987 that it was to pull out of money market operations in Europe and the US.

Merrill has said clients will gradually run down its business as alternative funding sources are found. It is likely to have withdrawn completely some time next year.

It said the move would not affect its bigger commercial paper business in the US, where it is the largest dealer, or other money market and medium-term note operations in Europe.

Merrill is a dealer on 197 Eurocommercial paper and Eurocertificates of deposit programmes, and is principal agent on a further 23 so-called

# French insurer to buy 4.9% of MBIA

By George Graham in Paris

CRÉDIT Local de France, the French state-controlled local authority financing specialist, is to pay around FF300m (\$45m) for a 4.9 per cent stake in MBIA, the leader in the US market for municipal bond insurance.

The two groups plan to build on each other's expertise in their local markets, with Crédit Local developing an activity in guaranteeing municipal bond issues for the US and MBIA seeking to set up a subsidiary in France to look for opportunities in the European market.

The two markets are different. Most US local authority financing is carried out through direct issues of tax-exempt bonds. To ensure a good rating for these bonds, the issues are often backed either by an insurer or by a letter of credit from a bank syndicate.

However, the two companies expect an increasing transfer of techniques from one market to the other, especially as the possibility of direct funding of local authorities and of infrastructure projects opens up in Europe.

Credit Local hopes to build its presence in the letter of credit segment, using its AAA credit rating, with a target of \$100m of business in the first six months and \$300m a year within two years. It will use MBIA's experience in evaluating issues, but this activity is expected to complement MBIA's insurance of municipal bonds.

Around 40 per cent of the \$120bn a year of US municipal bond issues is guaranteed, with some \$20bn in the form of letters of credit and \$32bn guaranteed by insurers. MBIA originally the Municipal Bond Insurance Association, a consortium set up by four large US insurers - has around 38 per cent of its market.

Credit Local finances around 45 per cent of local authority borrowing in France, and expects activity in this market to stagnate in the years to come. Therefore, it has been seeking to develop its business overseas.

# Japanese warrant issue leaps to big premium

By Andrew Freeman

SECONDARY TRADING on the Eurobond markets was very slow yesterday, and dealers concentrated on placing paper from recent new issues. The Euro sector saw lively business as investors were persuaded to buy high-yielding paper.

On the primary market, patchy business suggested that some syndicate managers were eyeing the end-of-year league tables rather than responding to genuine investor demand.

However, Yamaichi brought a \$600m deal with equity warrants for Ishikawajima-Harima Heavy Industries to a premium almost as spectacular as the borrower's name is long. The bonds traded from their par issue price up to a closing level of 110 1/2, buoyed by the strong equity market in Tokyo.

S.G. Warburg was the lead manager of an increased \$175m mortgage-backed issue for Temple Court Mortgage No.1, a special-purpose vehicle for Legal & General, the UK finance and insurance company.

The notes offered a yield of

## NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Ishikawajima-Harima Heavy Industries	600	8 1/2	100	1992	2 1/2%	Yamaichi Int. (Europe)
Development Bank Turkey	100	10 1/2	100	1992	1 1/2%	Daiwa
Sumitomo Corp. Overseas	100	8 1/2	101 1/2	1992	1 1/2%	Daiwa
Nichel Co. (a) (b)	300	2 1/2	100	1993	2 1/2%	Yamaichi Int. (Europe)
LINE						
Ferrovie dello Stato (c) (d)	800m	(e)	100	1998	70/40bp	Banco di Roma
D-MARKS						
European Coal & Steel (b) (c)	100	7 1/2	101 1/2	1994	1 1/2%	Dresdner Bank
STERLING						
Temple Court Mortgage No.1 (d) (e)	175	(d)	100	2002	45bp	S.G. Warburg Secs.
YEN						
Toronto-Dominion Bank (a) (b)	4bn	8 1/2	101 1/2	1991	1 1/2%	New Japan Secs. Europe

25 basis points over three-month Libor (London interbank offered rate), and were reoffered to investors at 98.50, implying a 16 basis point fee for the underwriting banks. The syndicate agreement was still in force at the end of trading, and Warburg said it would probably allow the notes to trade freely this morning.

Daiwa brought two deals, both \$100m straight issues, to mixed receptions. A three-year deal for Sumitomo Corporation Overseas Capital offered a 72 basis point spread over Treasuries, which many traders said was very tight.

Daiwa said the pricing was competitive, and confirmed that it had bought back some paper via independent brokers, noting that most of the bonds were taken by Sumitomo's relationship banks.

Daiwa quoted the paper at less 1.43 bid, outside full fees of 1 1/2 point. Away from the lead manager, traders offered prices of less 1.60 bid, implying a spread over Treasuries of nearly 82 basis points. Proceeds were swapped, probably into yen.

A six-year deal for the Development Bank of Turkey was also roundly criticised by the

market for being very tightly priced.

The par-priced bonds offered a yield of 200 basis points over the market three days ago and had found several banks with good demand at the indicated terms. An official said the bonds were bid on fees at less 1%, amid small amounts of selling.

Other syndicate members were divided. Most said they thought the pricing tight, but that they had managed to sell their bonds for asset swaps in the Far East. They said the paper was trading at least 2 1/2% bid on brokers' screens.

Banco di Roma brought the largest Euro-lira issue, a 1,500bn floating-rate note for the state-guaranteed Ferrovie dello Stato. The notes offered a yield equivalent to six-month Libor (London interbank bid rate), currently around 12.70 per cent annually, and were judged by traders as fairly priced. Demand was steady, and the paper traded on fees at 98.30 bid.

In Germany, small otherwise quiet trading. Dresdner Bank brought a DM100m five-year deal for European Coal & Steel Community. The bonds were well received, and traded inside fees at less 1 1/2% bid. Elsewhere, there was speculation that a World Bank deal may be imminent.

The Italian Treasury is offering 1,500,000 of six-year government certificates with options for early redemptions (C/Os) carrying a 12.5 per cent coupon. The Treasury is also reoffering 1,000,000 of certificates maturing November, 1994.

# Financing for Gateway buy-out wins firm support

By Stephen Fidler

S.G. WARBURG said yesterday that it had found firm support for a \$1.56bn (\$2.15bn) leveraged buy-out financing for Isoceles, the company formed to buy the Gateway supermarkets group of the UK, as the company indicated its performance was currently running ahead of target.

Warburg closed syndication on the transaction on Tuesday. It said \$307m represented the amount sold down to other banks and substantial desired final commitments of the underwriters. The remainder will remain on the books of underwriters.

It admitted that the syndication had been made more difficult by "current concern relating to leveraged buy-outs in the US and the UK". But, in the circumstances, the underwriters of the senior loans were "comfortable with the transaction and with the performance of the company to date."

The syndication widened the banking group to include a mix of British, continental European, US and Japanese institutions, Warburg said in a statement.

The statement quoted Mr David Smith, Isoceles' managing director, as saying that the company's moves so far to strengthen Gateway had been successful.

# Treasuries show little response to latest Tan report

By Janet Bush in New York and Rachel Johnson in London

US TREASURY bonds remained in a tight trading range yesterday and reacted little to the publication of the US Federal Reserve's latest Tan Book, a report on the economic situation from regional Fed offices.

At mid-session, bond prices across the maturity spectrum were quoted unchanged or up to a point higher and lower. The Treasury's benchmark long bond was unchanged for a yield of 7.88 per cent. Prices have moved little this week as traders wait for tomorrow's November employment report.

There has been little economic news this week to push prices out of their tight ranges. The Fed funds rate has traded

# Government Bonds

steadily all week at between 8 1/2 per cent and 8 3/4 per cent.

The Fed's Tan, or Beige Book, used as a guide to setting monetary policy within the Federal Open Market Committee, said that most Fed districts reported some falls in manufacturing but that there were also pockets of strength.

It also noted that modestly increased input prices and a varied experience in consumer spending. The overall message was one of weak signals on interest rates.

A COUPLE of figures hinting at a slowdown in the West German economy in the short term boosted bonds yesterday.

They rallied half a point as manufacturing orders fell 3 per cent for October and the trade balance confirmed that growth had slowed.

The bund future on Liffe opened at 90.87 and closed

# BENCHMARK GOVERNMENT BONDS

Country	Denom	Coupon	Red Date	Price	Change	Yield	Week Ago	Month Ago
UK GILTS	100,000	9.50	0/02	103.07	-0.52	12.00	11.98	11.95
	100,000	8.75	1/08	101.00	-0.10	12.00	11.98	11.95
	100,000	8.00	10/08	101.10	-0.10	12.00	11.98	11.95
US TREASURY	10,000	7.75	11/09	100.12	+0.02	7.88	7.91	8.02
	10,000	8.125	8/10	102.28	+0.32	7.88	7.82	7.87
JAPAN	No 111	4.80	6/08	94.80	+0.01	5.48	5.48	5.57
	No 2	5.70	10/08	101.77	+0.00	5.50	5.47	5.45
GERMANY	10,000	8.00	0/08	98.50	+0.20	7.21	7.23	7.28
FRANCE	BTAN	8.00	10/94	94.29	+0.07	8.51	8.58	8.70
	OAT	8.125	5/08	94.70	+0.20	8.58	8.16	8.17
CANADA	10,000	8.25	12/90	97.12	-0.05	7.72	7.82	7.92
NETHERLANDS	7,250	7.00	0/08	98.20	+0.20	7.72	7.82	7.92
AUSTRALIA	12,000	7.00	0/08	93.87	-0.35	13.14	13.08	13.21

be a steep dip. West Germany was still likely to push vigorously into the 1990s, despite the latest indicators.

IN THE UK, government bonds fell about a 1/2 point in busy trading, although there was no obvious change of sentiment.

Although political uncertainty has been put to one side, the market was still swept by rumour. The big story was of an unwinding of a swap contract with a local authority. The benchmark Treasury 9 per cent bond due in 2006 fell about 7 ticks, while the cash market fell about 1/2 across the board.

In the index-linked market, prices began to look expensive relative to conventional gilts. The 2.5 per cent index-linked stock lost 1/2 as investors switched into fixed interest stocks.

## FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS	Wednesday December 6 1989										
	Index No.	Day's Change %	Est. Earnings (Macs.)	Gross Div. Yield (Act at 25%)	Est. P/E Ratio (Net)	Index No.	Day's Change %	Est. Earnings (Macs.)	Gross Div. Yield (Act at 25%)	Est. P/E Ratio (Net)	
1 CAPITAL GOODS (205)	878.28	+0.9	12.63	4.74	9.71	29.58	891.25	4.74	9.71	889.31	772.43
2 Building Materials (28)	1875.52	+1.1	14.36	5.14	8.68	36.22	1885.42	5.14	8.68	1882.53	1261.18
3 Contracting & Printing (37)	1455.22	+1.3	17.04	5.31	7.49	42.71	1467.28	5.31	7.49	1464.95	1045.88
4 Electricals (10)	2587.26	+1.8	10.95	4.81	11.91	83.58	2592.91	4.81	11.91	2589.04	2315.58
5 Electronics (30)	1908.35	+0.5	9.62	3.81	13.37	51.33	1914.85	3.81	13.37	1912.19	1722.19
6 Mechanical Engineering (53)	461.87	+1.8	12.47	4.96	9.78	15.76	457.21	4.96	9.78	457.89	499.82
7 Metals and Metal Forming (61)	465.23	+0.7	25.29	6.42	4.46	25.51	462.98	6.42	4.46	462.59	672.82
8 Motors (17)	349.58	+0.6	11.08	4.71	10.75	11.81	346.45	4.71	10.75	346.28	285.58
9 Other Industrial Materials (24)	1735.07	+1.7	5.69	4.34	12.28	54.13	1748.30	4.34	12.28	1745.25	1513.29
10 CONSUMER GROUPS (185)	1317.01	+1.1	8.54	3.45	14.69	37.74	1323.87	3.45	14.69	1321.38	1014.37
22 Brewers and Distillers (23)	1491.03	+0.5	9.18	3.41	13.58	29.39	1498.28	3.41	13.58	1497.89	1128.40
23 Food Manufacturing (20)	1159.50	+0.8	9.29	3.83	13.63	35.30	1164.16	3.83	13.63	1162.52	915.52
24 Food Retailing (15)	2332.13	+2.3	9.83	3.88	14.64	49.39	2358.91	3.88	14.64	2353.56	1776.14
27 Health and Household (14)	2712.96	+1.8	8.83	1.92	20.44	44.72	2664.08	1.92	20.44	2632.07	1784.55
29 Leisure (35)	1632.04	+0.8	6.02	3.56	15.34	41.42	1618.80	3.56	15.34	1613.91	1359.46
31 Packaging & Paper (14)	579.78	+0.3	12.20	5.35	10.27	18.37	581.97	5.35	10.27	580.92	516.81
32 Publishing & Printing (13)	349.58	+0.6	11.08	4.71	10.75	11.81	346.45	4.71	10.75	346.28	285.58
34 Stores (32)	896.55	+1.4	18.92	4.22	11.93	25.94	925.32	4.22	11.93	920.49	669.53
35 Textiles (14)	525.40	+1.4	10.93	5.45	11.10	21.23	531.47	5.45	11.10	527.86	453.23
40 OTHER GROUPS (95)	1172.65	+0.8	10.31	4.45	11.75	31.95	1186.77	4.45	11.75	1183.72	886.72
41 Agencies (17)	1585.80	+1.2	6.64	2.30	18.48	57.41	1594.78	2.30	18.48	1591.58	1312.56
42 Chemicals (22)	1228.84	+0.3	12.44	5.45	9.45	47.50	1214.38	5.45	9.45	1212.37	1083.74
43 Conglomerates (14)	1688.87	+0.6	18.45	5.11	11.26	39.29	1679.14	5.11	11.26	1664.69	1288.64
45 Transport (13)	2279.56	+0.8	10.40	4.19	12.26	68.85	2272.99	4.19	12.26	2268.50	1843.46
47 Telephone Networks (2)	1154.68	+1.4	11.90	4.44	11.82	22.38	1168.12	4.44	11.82	1164.85	1061.89
48 Insurance (Broker) (7)	1928.82	+0.4	9.18	3.26	12.40	47.80	1933.12	3.26	12.40	1929.81	1616.81
49 INDUSTRIAL GROUP (489)	1181.35	+1.1	10.66	4.08	12.36	32.16	1199.58	4.08	12.36	1196.29	931.82
51 Oil & Gas (15)	2347.45	+1.1	9.22	4.88	14.33	96.40	2358.50	4.88	14.33	2356.54	1711.21
59 SOO SHARE INDEX (928)	1278.69	+1.8	9.94	4.18	12.52	37.48	1285.88	4.18	12.52	1282.99	977.29
61 FINANCIAL GROUP (120)	834.67	+1.6	5.08	2.27	18.23	67.40	841.88	2.27	18.23	838.08	674.24
62 Banks (9)	853.84	+0.9	28.24	5.89	6.49	35.17	845.69	5.89	6.49	848.47	644.24
63 Insurance (Life) (7)	1499.82	+2.1	4.71	1.71	17.47	47.56	1508.54	1.71	17.47	1505.88	932.48
64 Insurance (Composite) (7)	714.39	+0.1	5.29	2.29	24.34	70.83	717.79	2.29	24.34	715.56	506.54
67 Insurance (Broker) (7)	1928.82	+0.4	9.18	3.26	12.40	47.80	1933.12	3.26	12.40	1929.81	1616.81
68 Merchant Banks (11)	465.01	+1.1	3.71	1.85	14.45	46.44	467.29	1.85	14.45	465.33	318.73
69 Property (49)	1241.13	+1.0	7.36	3.45	17.29	26.21	1258.37	3.45	17.29	1255.00	1244.74
70 Other Financial (30)	328.47	+1.2	12.43	6.91	10.58	34.53	324.53	6.91	10.58	321.34	291.58
71 Investment Trusts (69)	1383.80	+0.6	9.16	2.73	24.78	1275.90	1289.49	2.73	24.78	1287.65	912.25
81 Mining Finance (1)	787.80	+1.1	10.36	3.11	10.44	22.25	793.81	3.11	10.44	790.15	537.70
82 Overseas Traders (7)	1353.38	+0.2	1.52	5.33	10.67	46.11	1348.96	5.33	10.67	1345.83	1294.66
99 ALL-SHARE INDEX (697)	1172.49	+1.0	4.27	1.22	25.24	1164.92	1158.51	1.22	25.24	1152.90	918.10

FIXED INTEREST	AVERAGE GOVERNMENT REDEMPTION YIELDS									
	Index No.	Day's Change %	Wed Dec 6	Tue Dec 5	Year ago (approx.)					
1 British Government	116.16	-0.04	116.33	116.30	116.00					
2 Up to 5 years	129.90	-0.25	129.19	129.10	128.80					
3 Over 5 years	136.81	-0.19	137.27	137.20	136.90					
4 Irredeemables	134.48	+0.04	134.33	1						





# IT'S POSSIBLE

Music by A. MANZANERO  
Lyric by SID WAYNE

Slowly, with expression

It's - pos - si - ble, Tell the sun to leave the sky, It's just - pos - si - ble,  
 It's - pos - si - ble, Ask a ba - by not to cry, It's just -  
 pos - si - ble. Can I hold you — clos - er to me, — and not  
 feel you — go - ing through me, — Split the sec - ond — that I  
 nev - er think of you? Oh, how - pos - si - ble. Can the  
 o - cean — keep from rush - ing to the shore? It's just - pos - si - ble. If I  
 had you, could I ev - er want for more? It's just - pos - si - ble.  
 And to - mor - row, — should you ask me for the world, some-how I'd get it, — I would  
 sell my ver - y soul and not re - gret it, — For to live with - out your love is just  
 pos - si - ble. *Tacet*  
 It's - pos - si - ble.

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There are two ways of looking at a volatile market. One way is cautious; battenning down the hatches. The other way is positive; looking for the opportunities. If you want to look for the opportunities in venture capital, you should talk to us. Because we cover all aspects of the market; management start-ups, growth capital, MBOs and MBIs. We're confident we can help the right sort of people. If you're confident too; why not give us a ring? In total confidence, needless to say, INVESTORS IN INDUSTRY



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## UK COMPANY NEWS

## Market shakes off figures on strength of maintained dividend Norcross down 37%: more job cuts

By Jane Fuller

NORCROS showed its vulnerability to the stresses in the UK building and retailing sectors in the half year ended September 30, with operating profit on continuing business down by 36 per cent to £17.76m, on turnover 25 per cent ahead at £232.1m.

Overall, group pre-tax profit fell 37 per cent to £18.32m (£28.12m), on turnover off 35 per cent at £222m (£366.74m). Earnings per share plummeted by nearly 5.5p to 8.5p.

This was despite the first full six months' impact of swapping, with Meyer International, the poorly performing UBM builders' merchant subsidiary for Crosby, a doors, windows and kitchens concern.

As the disappointing figures were expected, the market was more impressed by the holding of the interim dividend at 5p, and the intention to do the same for the 11p final. The share price rose 15p to 235p on the prospect of a 9 per cent yield.

The workforce, however, had further disappointment to come. Mr Michael Doherty, chief executive, said about 400 jobs, out of 10,000, were shed across the divisions.

A similar number of redundancies were being implemented in the second half, nearly all at the ceramics factories in Stoke on Trent. The ceramics division showed flat



Michael Doherty, chief executive of Norcross (left) and Robert Alcock, finance director, putting on a brave face after announcing a 36% fall in interim profits.

first half sales at £98.02m, but a 42 per cent fall in operating profit to £5.25m. Mr Doherty said the weakness was caused by the build up of fixed costs over several years.

Job losses would continue next year, bringing the total cut to about 10 per cent.

Overall, the business disposals implemented by Mr Doherty since his appointment 20

months ago brought turnover down by 36 per cent, despite a £40m contribution from the acquisitions. But operating profit fell even more quickly.

Taxable profit included nearly £800,000 in interest received, against a £2.85m payment last time.

Together, building products and ceramics were split

roughly equally between commercial and domestic work. Mr Doherty said the former was holding up while the latter had been hit since the May rise in interest rates.

The split was also 50/50 between new build and refurbishment and, unlike some managers in the sector, he said the businesses had not experienced a flourishing of refurbishment to replace the lost new build.

Building products, which is the largest division having absorbed Crosby, saw its turnover increase by 66 per cent to £102.62m, while operating profit grew 36 per cent to £2.78m. Three small factories were closed in the first half.

The print and packaging division also saw operating profit fall to £4.78m (£6.3m) on turnover slightly up at £46.48m. Mr Doherty said many of the packages and labels went to retailers, which had also been under pressure.

"Margins still remain more than 10 per cent, which the majority of sectors would be delighted with."

The property division, which contributed less than 1m compared with last year's £5.5m (including nearly £2m from the sale and leasebacks), was expected to do much better in the second half as developments were sold.

See Lex



## Greene King flat at £9.4m

GREENE KING & Sons, the East Anglian brewer, yesterday announced a marginal increase in pre-tax profits, from £9.12m to £9.41m for the six months to October 29, writes John Riddling.

Strong sales of its beers, which include Greene King IPA and Harp Lager helped lift trading profits by 21 per cent, from £8.9m to £9.36m. But increased interest payments of £461,000 (£32,000), resulting from the expansion in the group's capital expenditure, limited progress at the pre-tax level.

Group turnover increased to £56.07m (£53.21m) and earnings per share edged ahead at 15.7p (15.4p). The interim dividend is raised to 2.9p (2.6p).

During the period, Greene King continued with the reorganisation of its estate. It purchased nine new public houses and one site, and three further pubs are under construction.

The group's associate companies also expanded. Buttery Hotels opened a new hotel in Peterborough, and Big R Leisure opened a new bowling alley and a roller skating rink.

## High interest rates hit Rowlinson

The adverse effects of high interest rates on property disposals resulted in a 26 per cent fall in interim pre-tax profits at Rowlinson Securities, the property development and investment group.

Although gross rental income improved slightly to £940,000 (£705,000), sales by the development and contracting divisions declined from £8.84m to £3.76m. Group pre-tax profits for the six months to September 30 fell from £1.63m to £1.2m.

Tax took £421,000 (£569,000) after which earnings per 10p share were left at 6.7p (8.45p). The interim dividend is again 2p.

In spite of the adverse conditions the company was optimistic that its financial strength and geographical spread would enable further growth in the second half.

## Ulster Bank up 15%

Ulster Investment Bank, the merchant banking subsidiary of Ulster Bank, part of National Westminster Bank group, announced after-tax profits for 1989 up 15 per cent to 126.94m. Assets rose to £1.1bn (£973m).

## Cray reveals mbo attempt made two months ago

By Nikki Tait

AN ATTEMPT to mount a management buyout bid was made two months ago at Cray Electronics, the electronic equipment manufacturer which announced in November that a review of accounting policies had slashed previously-stated profits by two-thirds, it was disclosed yesterday.

However, the approach was rejected by the board, on the advice of the company's advisers, and never notified to shareholders.

The information surfaced at an extremely unhappy, if somewhat resigned, extraordinary meeting of shareholders yesterday. This was called to approve an alternative reconstruction plan for the group, involving the injection of a new management team - comprising former UBI directors, Sir Peter Mitchell, Mr Jeffrey Harrison and Mr Jon Richards - and the implementation of share subscription arrangements for a trio. These could give them over 20 per cent of Cray's equity.

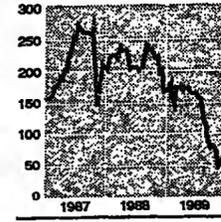
All motions were passed on a show of hands, with proxies also heavily in favour. The new board immediately began work, announcing that they would review commitments and pay-offs to former directors and that they planned to sell two divisions, including the defence interests.

News of the mbo approach came in a question from Mr Les Kyle, managing director of one of Cray's more recently-acquired subsidiaries, who wanted to know why it had not been put to shareholders.

Mr Stephen Trudgill, the non-executive director who adopted the chairman's role temporarily following the boardroom resignation of Mr Bernard Collins, said that directors had considered the

### Cray Electronics

Share price (pence)



price offered insufficient. After prompting from advisers, Mr Trudgill added that investigations had shown there to be no serious financing behind the approach.

An offer price around the 75p level is believed to have been mooted by the buyout team, with Charterhouse acting as advisers. Funding was not in place, however, and would have been dependant on further information about Cray's financial position, which was never forthcoming. S. G. Warburg, Cray's merchant bankers, said yesterday that their advice at the time was that funding was very unlikely, and that risks attached to proceeding with the offer were very high.

Yesterday's meeting - attended by some 100 people - began with a lengthy preamble from Mr Trudgill, during which he confirmed that the preliminary announcement - stating pre-tax profits to be £17m in 1988/9 - was vetted by Ernst & Young, Cray's auditors. The review by Price Waterhouse later suggested that the figure should be £5.44m.

Attempting to diffuse share-

holder unrest, Mr Trudgill announced that the buy-in team had said it would review the arrangements with former directors "as a matter of priority".

Mr Collins, the group's former chief executive as well as chairman, was given a fixed-term service contract in August worth £225,000 a year until July 1993, while Cray's former finance director received a £125,000 pay-off with another £40,000 to augment his pension.

That did not stop several former employees and vendors of businesses to Cray expressing their horror at the situation. "Directors leaving Cray's sinking ship have not only been well-provided for, but seem to have taken the life-boats as well," commented Mr David Hopkins, a general applause.

Postal, the fund managers for the large British Telecom and Post Office pension funds, also registered their unhappiness at the extent of the share subscription arrangements offered to the new management. It said that it would not vote against, in the absence of any alternative, but expected "extraordinary rewards" in return for the "extraordinary incentives".

After meeting a number of people who had sold companies to Cray recently were talking about taking legal advice, although Sir Peter said that no moves had been registered with the company itself.

The new team announced later that it was immediately putting the defence division with broke even on sales of £21m last year, up for sale, together with the loss-making Cray Advanced Materials subsidiary. It also plans to shed the divisional structure of the head office.

## Monotype losses increase to over £1.3m in first six months

By John Riddling

MONOTYPE CORPORATION, the manufacturer of typesetting equipment, which has agreed a £22m takeover by a US investment company but which has subsequently

announced higher pre-tax losses for the first half. The deficit for the six months to the end of September rose from 1988,000 to £1,295,000 on sales down from £22.5m to £21.1m. Losses per share were reduced from 6.21p to 5.71p, reflecting an increased number of shares in issue, and the interim dividend has been

reduced. Mr Roger Day, chairman, said that the reason for the downturn was the sale of Chelgraph Products, a profitable business but which Monotype felt had reached a "technical plateau". In addition, the group's borrowings, which now amount to about £17m, prompted a rise in the interest charge from £471,000 to £798,000.

According to Mr Day, the underlying trading position improved during the period and margins and volumes had recovered in the September quarter. Monotype also announced

that property revaluations, including the group's new headquarters building, had yielded a surplus of £4.41m.

The offer document from Pointplus, the vehicle for King Black & Associates, the US investment company, was sent to shareholders yesterday. But Mirror Group Newspapers has indicated that it may make a bid at a price slightly higher than the 150p per share offer from Pointplus. Yesterday the shares were unchanged at 155p.

### FINLAND

The Financial Times proposes to publish a Survey on the above on 18TH DECEMBER 1989

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FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

# GEC

## Record interim results

for six months to 30th September (unaudited)

	1989	1988		
TURNOVER (£ million)	3,664	3,075	UP 19%	• Strong growth in sales, pre-tax profit and earnings per share
PROFIT BEFORE TAX (£ million)	357	313	UP 14%	• Outstanding order book at £8 billion
EARNINGS PER SHARE (pence)	8.6	7.5	UP 14%	• Joint ventures with CGE and GE successfully completed
DIVIDENDS PER SHARE (pence)	2.55	2.15	UP 19%	• Plessey acquired by GEC Siemens
				• Further substantial increase in dividend

The General Electric Company, p.l.c.  
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**UK COMPANY NEWS**

**Uncertainty from bid overshadows strong trading performance  
Tiphook doubles to £10.1m**

By Andrew Hill

TIPHOOK, the UK container rental company involved in a long-running £1.02bn bid for Sea Containers, more than doubled pre-tax profits to £10.1m in the half-year to October 31, against £4.5m last time.

Mr Robert Montague, chairman, said the economic climate had not had an adverse effect on the core business in the first half, thanks to strong financial controls. Also, customers were renting, rather than buying trailers and containers, due to economic uncertainty.



Robert Montague: strong financial controls

He could not comment on the bid because the UK group and its Swedish partner Stena, a private shipping company, are currently fighting a legal battle with Sea Containers in Bermuda, where the ferry and container group is registered.

Tiphook's turnover rose from £45.1m to £74.6m and earnings per share were up from 12.9p to 19.6p. An interim dividend of 2.7p (2.15p) was declared.

Mr Rodger Braidwood, finance director, said he thought the Sea Containers bid

had overshadowed Tiphook's strong trading performance.

In Bermuda, Tiphook and Stena are trying to win an injunction which would prevent Sea Containers from dealing in its own shares, following a setback at the beginning of last week, when Bermuda's chief justice ruled that the purchase of shares by Sea Containers subsidiaries was legal. The judge could decide whether to allow an injunction by the end of this week.

Sea Containers is planning to dispose of £1.1bn of assets, to fund a \$70-a-share tender offer for its own shares, to fight off the \$93-a-share offer.

Mr James Sherwood, Sea Containers' president, has yet to set a date for a special meeting at which investors would consider the alternatives.

**COMMENT**  
Strip out the risk involved in

the Sea Containers bid and Tiphook's shares look rather attractive. Trading is strong and even if recession bites in the UK, the group is probably sheltered by its well-spread international business. Analysts are forecasting pre-tax profits this year of as much as £36m - a prospective p/s of about 8 on yesterday's closing price of 442p, up 8p, compared with 512p when the offer was launched. However, bids fought in Bermuda, London and New York over more than six months must take their toll. Tiphook's shares rose after last week's unfavourable court decision, which dispelled some investors' concerns about what might happen to Tiphook's finances if the bid were successful. On the other hand, the strength of the first-half performance indicates that management might well be up to that sort of challenge. The downside should be limited - rights issues are already in place to fund a part of the Sea Containers bid - but cautious investors might prefer to wait and see.

**Reorganised BTP 41% ahead and benefits from disposal**

By Vanessa Houlder

BTP, the specialist chemical and industrial group, yesterday announced a 41 per cent increase in profits before tax and exceptional items from £4.61m to £6.51m for the six months to September 30.

An exceptional profit of £2.1m from the group's sale of its 50 per cent holding in Desoto Titanine, a specialist coating manufacturer, lifted the pre-tax total to £9.6m. Turnover was £60.12m (£44.77m).

Mr Frank Buckley, chairman and chief executive, said that the results highlighted the benefits of the re-investment and refocusing strategy of the past and current financial year.

The operating profit of the chemical division increased from £3.18m to £5.26m while that of the industrial division rose from £1.49m to £1.25m.

Mr Robert Martin, finance director, said that the chemicals and industrial division had produced organic growth of 30 per cent and 20 per cent respectively.

The gearing is under 20 per cent. More moves taking BTP further into specialist chemicals and reducing its dependence on the UK, are being considered, said Mr Martin.

Earnings per share were 6.8p (excluding exceptional items) against 4.92p, an increase of 39 per cent. An interim dividend of 2.75p (2.5p) has been declared.

**COMMENT**  
BTP's metamorphosis from the bulk storage and chemicals company British Tar Products has, it might seem, been vindicated. These results, which were at the top end of expecta-

**Spurs' team rides over investors' tackles**

By John Ridding

TOTTENHAM HOTSPUR'S annual meeting, billed as a needle match between a divided board and a crew of angry shareholders, proved in the event a relatively easy fixture for Mr Paul Bobroff, the company's chairman.

However, the defending team of Mr Bobroff and his colleagues on the board did have to field a number of awkward questions.

"Why did you step down as chairman only to come back one week later?" asked Mr Hamilton-Fairley, who added that "we find these boardroom shenanigans disconcerting."

"Why are costs up by 50 per cent, administration expenses up by 80 per cent and profits down by half?" demanded Mr Darbishire who believed that last year's results were "not a tribute to good management."

But Mr Bobroff and his board handled the objections with relative ease. The reported split between himself and Mr Tony Berry, former chairman of Hine Arrow and a fellow Tottenham director with about 8 per cent of the shares and Mr Irving Scholar, the football club chairman, failed to manifest itself.

Similarly, shareholder discontent about the level of the club's indebtedness and reports that this would limit Spurs' activity on the transfer market, was limited to grumbles about the departure of Chris Waddle, the talented striker, to Marseille for a record £4.5m.

Mr Bobroff admitted that borrowings at Spurs - the only UK football team with a full market listing - had risen from the £7.5m reported in the accounts for 1988. He declined to specify the current level, estimated at up to £10m, but said that the company's financial position had been much as expected since the end of May.

In respect of his abrupt departure and reinstatement at the head of the group, Mr Bobroff said that "the board has an agreed policy and strategy" and that "any concerns on the part of shareholders will be allayed over the next few months."

But before long, attention was focused on football, the main interest of most of those present - even though the questions retained a financial ring. "What" asked Mr Graham Betts, "is the condition of our asset who broke his leg at Manchester United?"

**Perkins Foods to pay up to £19.4m for West German frozen pizza maker**

By Andrew Bolger

PERKINS FOODS, the fast-growing food manufacturer and distributor, has agreed to pay up to £19.4m for Peppino's Pizzas, a West German maker of frozen pizzas.

Perkins, the former John Perkins Meats which is quoted on the USM, plans to raise £18.3m by a placing and open offer of 20.8m shares at 92p each. On the stock market its shares dropped 8p to match that price.

The company also said it was in negotiation with the proprietors of two small European food businesses and hoped to acquire them for a maximum £3.5m in the near future.

The Peppino's acquisition, Perkins first in West Germany, was a further step in the creation of a broadly based North-

**Perkins Foods to pay up to £19.4m for West German frozen pizza maker**

By Andrew Bolger

ern European food group. The group has three core activities - frozen food manufacturing and trading; marketing and distribution of fresh produce; and mushroom processing and distribution.

Mr Howard Phillips, chief executive, said that after this acquisition 70 per cent of Perkins' profits would come from the Netherlands, 20 per cent from West Germany, and the remainder from the UK.

Peppino's supplies a range of frozen, thin-bass pizzas to south German supermarket chains and also supplies one of the national home delivery services.

Initial consideration for Peppino's is £12.5m on warranted profits of £1.7m for 1988. The maximum deferred consideration, subject to profits, is £7.1m, payable over four years.

To raise funds for the acquisition, 20.8m new ordinary shares are being conditionally placed by Guinness Mahon with institutional clients of James Capel, subject to recall to satisfy applications under the open offer.

Shareholders can apply for those at 92p each on the basis of one new for every four ordinary held; one for every four standing convertible preference shares; and one for every 16 Deutsche Mark convertible preference shares.

Funds raised in excess of the cash consideration for the acquisition will be used initially to reduce Perkins' level of gearing. Perkins forecast that its final dividend for the year to December 31 would be at least 3.1p (2.5p), an increase of 24 per cent.

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The Peppino's acquisition, Perkins first in West Germany, was a further step in the creation of a broadly based North-

**Bogod profits hit by French operation**

By John Ridding

Pre-tax profits of Bogod Group, formerly Bogod-Pelopah, seller of sewing machines and parts, were halved to £45,000 in the six months ended September 30, 1989.

This was after a £63,000 debit, taken as an exceptional charge, for the setting up and the trading losses of Bogod France.

Turnover rose slightly, from £3.05m to £3.25m. Taxable profits last time were £98,000.

Earnings worked through at 0.0636p (0.6005p) per ordinary 10p share and 0.1272p (1.201p) per 'A' restricted voting share. The interim dividend is held at 0.1p.

Directors said it would still take some time for the Bogod France operation to make a positive contribution to group profits.

**THORNTON PHILIPPINES REDEVELOPMENT FUND LIMITED**

After the closing of the stock exchanges in the Philippines, the Directors of Thornton Philippines Redevelopment Fund Limited, having been advised by the Managers, have suspended dealing in shares of the aforesaid Fund until further notice.

It is intended to make a further announcement when dealing can re-commence.

**THORNTON**

PROFITING FROM LOCAL KNOWLEDGE

**PUBLIC WORKS LOAN BOARD RATES**

Effective December 6

Term	By 1991	By 1992	By 1993	By 1994	By 1995
1	13.5%	13.5%	14.5%	14.5%	14.5%
Over 1 up to 2	13.5%	13.5%	14.5%	14.5%	14.5%
Over 2 up to 3	12.5%	12.5%	13.5%	13.5%	13.5%
Over 3 up to 4	12.5%	12.5%	13.5%	13.5%	13.5%
Over 4 up to 5	12.5%	12.5%	13.5%	13.5%	13.5%
Over 5 up to 6	12.5%	12.5%	13.5%	13.5%	13.5%
Over 6 up to 7	11.5%	11.5%	12.5%	12.5%	12.5%
Over 7 up to 8	11.5%	11.5%	12.5%	12.5%	12.5%
Over 8 up to 9	11.5%	11.5%	12.5%	12.5%	12.5%
Over 9 up to 10	11.5%	11.5%	12.5%	12.5%	12.5%
Over 10 up to 15	11.5%	11.5%	12.5%	12.5%	12.5%
Over 15 up to 25	10.5%	10.5%	11.5%	11.5%	11.5%
Over 25	10.5%	10.5%	11.5%	11.5%	11.5%

Non-quoted loans B are 1 per cent higher in each case than non-quoted loans A. † Equal instalments of principal. †† Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). ††† With half-yearly payments of interest only.

September 1989

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a company in the

**Société Générale de Belgique Group**

We initiated this transaction, assisted in the negotiations and acted as financial advisor to Astra Holdings PLC.

**PaineWebber International**

**...the pace of our progress has gathered speed...**

**CHRISTOPHER HARDING, CHAIRMAN.**

"We have spent heavily on cleaning up our environmental act ahead of the game. Our competitors in the energy business will now have to do the same."

"While calling for a pause in nuclear development, the government has recognised the importance of nuclear's contribution to diversity of supply and thus of retaining the option for a long-term contribution from economic nuclear power."

"It was a year of growth, with turnover up by £77M to £916M and operating profits showing an increase of some 16% at £275M."

"Profit before tax was £24M higher at £124M."

"We set a new record for export sales, which rose by 26% to £169M."

**FINANCIAL DIGEST**

	1989	1988
TURNOVER	916	839
EXPORTS	169	134
PROFIT BEFORE TAX	124	100
PROFIT AFTER TAX	107	84
DIVIDEND	40	36
CAPITAL EXPENDITURE	647	584
ASSETS	3117	2588
NUMBER OF EMPLOYEES (AVERAGE)	16,169	16,773

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**BNFL**

## UK COMPANY NEWS

## Dividend up despite profits decline to £12.18m Poor tyre sales blamed for downturn at Avon Rubber

By Clare Pearson

PRE-TAX profits of Avon Rubber, the tyre and industrial polymers and inflatables concern, fell from £18.27m to £12.18m in the year to end-September.

The company had earlier warned City analysts that adverse conditions arising from poor sales of replacement tyres at home, and of winter tyres in Continental Europe, had affected it during the period under review.

Inflatable too had a bad year, which was largely ascribed to a downturn in the US marine products market.

But the final dividend is upped to 11.5p (10p), making 18.5p (14p) for the year. Earnings per share, adjusted for a one-for-four rights issue in June, fell to 41p (65.4p).

Mr Tony Mitchell, chief executive, said he expected Avon to make progress in the current year. But uncertainties over the US car market, the UK economy, and the winter weather made the extent of progress very difficult to project.

This summer Avon took two measures to reduce the preparation of its business taken up by tyre production: in May it sold

for £16.5m - 70 per cent of Motorway, the UK retail operation, to SP Tyres, the Sumitomo Rubber Industries subsidiary, and the next month it announced the £28m purchase of Cadillac, a US rubber and plastics group.

But since the purchase, Cadillac has been hit by sharp cutbacks in activity within the US motor manufacturing industry which has seen a 19 per cent fall in production of passenger cars in the last quarter.

Borrowings to finance the Cadillac purchase, the cost of carrying tyre stocks, and higher interest rates contributed to a rise in interest payable to £4.68m (£2.64m).

Operating losses at Motorway amounted to £900,000 in the period to May, against a £907,000 in 1988. Since May, it has put in a £280,000 loss to the £105,000 (£271,000) profit from related companies.

Despite low overseas sales of its S10 respirator, the industrial polymers activities made £10.27m (£9.42m) at the operating line. Inflatables put in

£474,000 (£1.08m). Tyres at home and overseas made £5.1m (£7.29m). Turnover was £228.56m (£226.86m)

## COMMENT

This latest spate of bad news left Avon Rubber's shares, now down to around 425p against a rights issue price of 500p, virtually unmovable. On a historic p/e of about 10.3, they still tower over their sector - which seems hard to justify especially considering the darker than recently expected environment for Cadillac and Motorway's continuing problems. However, bearing in mind Avon's band of loyal supporters, analysts yesterday thought the shares were likely to drift near-term rather than slump. Current year pre-tax profits of about £17m were pencilled in, giving a prospective p/e above 8; but much depends on what happens to US car production, as well as how much snow we get in the coming months. All will be clearer by early spring. The company still has a number of very positive aspects: transfers of technology between Cadillac, which it aims to develop away from the automotive market, for and its European business, for instance, and the benefits from a weaker pound arising from its rapid enhancement of non-UK business in recent years.

## Grown in ongoing activities lifts Cape by 33%

By Andrew Bolger

CAPE, the fire protection, insulation and building products group, yesterday announced a 33 per cent increase in pre-tax profits to £3.4m in the half year to September 30.

Cape, a former asbestos maker which is 63.9 per cent owned by Chartered Consolidated, said turnover had increased by 11.5 per cent to £90.4m.

Mr Jeffrey Herbert, chairman, said both the building products and industrial services division had contributed to this performance, which was achieved in spite of uncertainties being reflected in the market towards the end of the six-month period.

Shareholders' funds stood at £63.8m (£54.2m). Net assets at September 30 totalled £14.4m.

Mr Herbert said the recently announced decision to close the manufacturing operations of Cape Uni-Chem in Bowburn, County Durham, would end Cape's involvement with the manufacture and sale of any asbestos products. The plant, which had been operating on a breakeven basis, would close early in 1990.

Another chapter was closed in October when the House of Lords refused to hear an appeal on behalf of 206 people in Texas who, supported by the

US Government, had claimed \$15.5m from Cape and a subsidiary over asbestos-related injuries.

Cape also no longer has any South African interests following the disposal in October of Cape Contracts, its wholly-owned South African contracting subsidiary.

Mr Herbert said high interest rates were inevitably having an impact on certain of Cape's UK markets and the medium-term outlook remained unclear. However, he was confident about the future in view of Cape's current cash resources, the end of the asbestos case litigation and the group's emphasis on exports.

Earnings rose to 13.2p (10.3p). An interim dividend of 2.5p (2p) was declared.

### Hardanger Props lifted to £3.4m

Hardanger Properties, the Worcester-based property developer, lifted pre-tax profits by 19 per cent from £7.05m to £8.37m in the year to September 30.

Turnover slipped from £27.57m to £26.21m, though earnings were up 29 per cent to £5.9p (£6.6p). The final dividend is increased 32.5 per cent to a recommended 19.5p to make 28.125p for the year.

## Second half downturn leaves Crystalate 49% lower at £3m

SECOND-HALF profits at Crystalate Holdings reached £1.67m, and left the full year showing a 49 per cent reduction. The final dividend, however, is being maintained.

Lord Jenkin, chairman of this electronic products maker, said the result was a serious disappointment and management was taking action to cut costs and restructure as appropriate.

"We have taken major action to respond to current market trends; we are continuing to invest in advanced manufacturing equipment and facilities", he stated.

The share price had already suffered after the group issued a profits warning last August. Yesterday, however, it rose 10p to 62p as the result was not as bad as the market feared.

Turnover for the year ended September 30 was only marginally lower at £114.72m (£117.96m) but the pre-tax profit fell to £2.51m (£5.88m).

Return from resistive prod-

ucts in the US and Barbados dived 32 per cent and the systems side showed a £1.67m downturn into loss; that was exacerbated by a near doubling to £1.54m in interest charges.

Net borrowings had doubled to £24m by the year-end and compared with shareholders' funds of £20m.

Lord Jenkin said the increase was partly to finance a significant capital investment programme in the UK and US, and partly to finance greater than anticipated working capital.

He explained, however, that there would be a significant reduction in borrowing as the group had decided to sell Besson and CGIE, and also planned to reduce working capital.

Besson is the troubled telecommunications division, and its problems included in the first half as orders from some major customers fell away.

Detailed negotiations were proceeding for its sale. CGIE

is the French operation; it was profitable as a manufacturer and refurbisher of military and civil telecommunications equipment, but did not fit well with the rest of the business.

On prospects Lord Jenkin said over 50 per cent of business was in resistive products where the group had high market shares, a strong order book and, in the main, good margins.

Cost reduction programmes should make further progress. Although systems had a bad year, contract assembly was a growth market. A more satisfactory performance was expected in the current year.

After extraordinary charges of £5.97m (£2.49m), including reorganisation costs and losses on businesses for sale, there was a loss for the year of £2.7m (profit £1.7m). Given that this was due to extraordinary provision and given the prospects of reduced borrowing, the final dividend is again 3.5p, which makes the total 6.1p (5p).

## Leopold Joseph warns on profits

By David Lascelles, Banking Editor

LEOPOLD JOSEPH, the merchant banking group, warned yesterday that profits in its current financial year might not match last year's because of the worsening economic scene and rising costs.

In its interim statement yesterday, the bank said that net

profits for the half year to September 30 were "comparable" with those of the previous year. The group had also attracted new customers and increased revenues.

But there had been additional costs due to our established policy of laying secure

foundations for future growth. In consequence, the outcome for disclosed profits for the full year may not repeat the progress of recent years. Last year, net profits rose 43 per cent to £2m.

The unchanged interim dividend of 3.1p will cost £182.975.

## Construction equipment helps lift Robert Douglas by 41% to over £5m

By Andrew Taylor, Construction Correspondent

PRE-TAX profits of Robert M Douglas, the building, civil engineering and construction equipment group, increased by 41 per cent, from £3.72m to £5.23m, during the six months to the end of September. The shares closed 8p higher at 428p.

Profits from construction equipment, which accounted for just under half of profits, almost doubled. This mainly reflected strong demand for scaffolding and form work. The increase in profits from plant hire was more disappointing because of a fall in UK house-building, said Mr John Douglas, chairman.

The group had only a small housebuilding business. Therefore it had been less exposed to the decline in this market than other construction groups which had much bigger housebuilding operations.

Mr Douglas said there had

been some signs that private sector retail and office development in London and the south east were beginning to decline. The office and industrial markets in the Midlands, where the group was well placed, however, remained strong.

Value of the group's order book had risen to £316m by the end of September compared with about £290m at the beginning of the year. The settlement of several claims would boost construction profits in the second half.

Mr Douglas said that increased investment in roads and the water industry would underpin order books during the first half of the 1990s.

Turnover in the six months increased from £129.38m to £161.17m. Earnings per share rose by 37.7 per cent to 20.2p (15.1p) and the interim dividend is lifted from 2p to 3p.

## Whessoe up but turnover tumbles 41%

WHESOE, the pipework fabricator and engineer, yesterday reported a 35 per cent increase in pre-tax profits from a 41 per cent reduction in turnover.

The profits figure of £4.78m compared with £3.55m last time and comprised £4.01m (£3.07m) from engineering and £777,000 (£480,000) from instrumentation and control.

This result was struck on turnover of £58.44m (£99.6m) and reflected the downturn in its heavy engineering division. Whessoe announced in July that it planned to close its workshops in Darlington, County Durham, where it was experiencing difficulty in finding sufficient work to meet its capacity.

The company said that the prevailing economic circumstances in the UK were not as favourable as it would wish and its new management team was faced with considerable challenges.

The board believed, however,

that the group was more robust as a result of the actions taken and was now better able to take advantage of the opportunities open to it.

After tax of £1.56m (£383,000), earnings per share were left unchanged at 17.5p, and the directors propose to pay an improved final dividend of 3.75p (3p) making a total for the year of 5p (4p).

### Interest rates halve profits at Caffyns

Despite a rise in turnover from £56.46m to £69.62m, profits were more than halved at Caffyns, the Sussex-based motor dealer, in the six months to September 30. The decline, from £1.5m to £852,000, had been warned of in June and was attributed by the directors to pressure on margins and higher interest rates.

The problems are expected to continue this winter, but the directors are hopeful that by the middle of next year an upturn will be seen.

An exceptional credit of £407,000 (£380,000) was the surplus on the disposal of properties minus the cost of rationalisation. The interim dividend is maintained at 5p on earnings per share of 15.2p (12.1p).

Embassy Property vaults to £0.85m

All-round growth helped pre-tax profits vault from £247,000 to £854,000 at USM-quoted Embassy Property Group in the six months to September 30. Turnover rose by a more modest 30 per cent from £7.03m to £9.18m.

Within the profit figure, property development and trading advanced to £377,000 (£193,000); residential development to £152,000 (£87,000); construction and shopping to £279,000 (£122,000); and property investment to £201,000 (losses £1,000).

After tax of £307,000 (£28,000), earnings per share were 7.1p (nil) at the basic level and 6.9p (nil) fully diluted. The maiden interim dividend is 2p.

Mr Roger Holbeche, chairman, said that, while the general economic situation was having an effect on certain of the group's activities, the decision earlier in the year to capitalise the majority of its general borrowing rates, together with the spread of activities, would help protect the group's performance in the coming months.

### Northamber hit by market conditions

Northamber, a supplier of computers, computer printers and peripheral products, increased its turnover by 13.2 per cent from £47.88m to £54.22m in the half year to October 31. But high interest rates and the decision to concentrate resources on customers with a quality credit rating with the resultant lower margins, left pre-tax profits down by 21.1 per cent to £2.15m against £2.72m.

Mr David Phillips, the chairman, said in the first quarter the cost controls and continuing efficiency measures that had been introduced over the past year negated the effects of slower markets, but during the second quarter, the figures were finally eroded by the further worsening of market conditions.

Operating profits for the period fell to £2.64m (£3.22m) and interest payments were little changed at £491,000 (£495,000). After tax of £721,000 (£969,000) earnings per share emerged at 8p (10.3p). Net

assets per share were 107p compared with 89.9p and 98.5p at the April 30 year end.

### All-round growth at Cranswick Mill

All aspects of the Cranswick Mill Group performed well in the half year ended September 30, and profits rose from £315,000 to £434,000.

Turnover of this USM-quoted pig feed and marketing group was ahead £3m to £31m. Earnings rose to 4.2p (3.1p) but the interim dividend is again 1.8p.

Mr Richard Margison, chairman, said results of the feed division were pleasing, with market share being maintained.

### Albion up 24% but remains cautious

Albion, manufacturer and retailer of tailored menswear, recorded a 24.4 per cent increase from £764,000 to £951,000 in pre-tax profits for the year to September 30 on turnover which rose from £9.69m to £11.66m.

The statement had a cautionary tail, however. The board stated that there was now increased evidence that the Government's anti-inflation measures were curbing consumer spending.

This had resulted in a shortened order book and competition for new business had become intense. Pressure on margins would continue so

long as interest rates remained high.

Net operating income last year was up from £538,000 to £804,000 but other income slipped to £189,000 (£226,000). The share of losses of an associated company amounted to £43,000 (nil). Tax charged was £304,000 (£223,000) and there was a debit of £70,000 (£82,000) for minorities and an extraordinary charge of £15,000 (£50,000) income.

Earnings per share were 15.4p (12.1p) for the dividend total which, with a proposed final of 1.8p, is 3.1p (2.4p).

### Monks & Crane falls sharply

Profits fell sharply at Monks & Crane, USM-quoted distributor of industrial tools and fittings, in the six months to September 30. The taxable result of £294,000 compared with £1.22m in the previous first half.

Turnover rose slightly from £23.18m to £23.74m, but the share of profit from associated company's fell to £32,000 (£80,000) and net interest payable jumped to £397,000 (£110,000).

The directors expect trading to improve during the second half as measures have been taken to reduce overheads and achieve higher margins.

In the first half an exceptional loss of £122,000 (nil) arose from the closure of branches. The interim dividend is held at 1.5p on earnings per share of 2.7p (4.6p).

DOUGLAS

## SIGNIFICANT INCREASES IN PRE-TAX PROFITS AND EARNINGS PER SHARE

### DIVIDEND UP 50%

I am pleased to be able to report a significant increase in our pre-tax profits during the last half-year.

Better than for the same period last year, they reflect our commitment to performance, the management changes which have been made, and a good summer. Moreover, our continuing workload is at encouraging levels.

The Construction Division has won the contract for the new Honda

factory at Swindon. The Construction Equipment Division has shown an outstanding performance, and the Property and Homes Division is making steady progress. Our other Divisions have performed up to expectations.

Weather permitting, there is every prospect that our results for the year to March 1990 will be very satisfactory.

John Douglas O.B.E. Chairman

## SUMMARY OF RESULTS

	1989	1988
Half year to 30th September (unaudited)	£,000	£,000
Turnover	161,170	129,378
Pre-tax profit	5,232	3,718
Profit attributable to members	3,175	2,223
Earnings per share	20.8p	15.1p
Dividend per share	3.0p	2.0p

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COMMODITIES AND AGRICULTURE

EC to encourage non-food uses for cereal crops

By Tim Dickson in Brussels

FARMERS in the European Community will be offered subsidies to grow wheat and other cereals for non-food uses if a plan unveiled in Brussels yesterday is adopted by member states. The controversial idea - one of several proposals in a report on the use of agricultural commodities in the non-food sector - is designed to encourage producers to find new market outlets for their crops when the reforms of the Common Agricultural Policy are squeezing farm incomes. The subject of an intense discussion in the European Commission since the EC summit of February 1988, yesterday's paper will be scrutinised by farm organisations across the EC and by agri-industrial groups such as Ferruzzi, which has been pressing Brussels for years to divert surplus EC cereals into bioethanol production. They are likely to be disappointed that Mr Raymond MacSharry, EC Farm Commissioner, has adopted a relatively cautious approach and has stressed the EC's commitment to non-food uses, notably in research and development and in the subsidies already available in the starch regime. The proposals include the formation of a special EC committee to ensure greater coordination of initiatives and the development of a multi-annual programme of agri-industrial demonstration projects. Most eye-catching is the plan to subsidise cereals production where the farmer finds - by

US to renew subsidised grain sales to China

By Nancy Dunne in Washington

THE US is to renew subsidised grain sales to China, putting aside political considerations in the wake of the massacre in Tiananmen Square. After a recent meeting with Chinese officials and hours of internal discussion, US Agriculture Department officials agreed to offer China 1m tonnes of wheat, subsidised under the Export Enhancement Program (EEP). Mr John Redington, a USDA official, said that in accordance with the programme's rules, the department was required to consider the long-term trade relationship between the US and China. Grain traders are also hoping for a new subsidy offer to the Soviet Union. The first round of talks began yesterday in Moscow for a new long-term grain agreement (LTA), and traders believe a large, new EEP offer will reassure the Soviet side that the US expects to sell its grain at competitive prices. No agreement is expected soon on the LTA, in spite of the increasingly warm US-Soviet ties and President Bush's offer during the Malta summit to begin talks immediately on an overall US-Soviet trade and investment agreement. Soviet negotiators have complained for years of the high tariffs imposed on their products by the failure of the US to grant Moscow Most-Favoured Nation status. Mr Steve McCoy, president of the North American Export Grain Association, said that until the US waived the Jackson-Vanik Amendment, which denies MFN status "where no reason why anyone should act." The current LTA still has a year to run. Mr McCoy said the EEP sale to China went ahead because the programme was seen as a vital "underpinning" for farmer income. "We have to be pragmatic about these things. It's the President's policy not to use food as a weapon." Under rules issued for the EEP last month, subsidies are to be directed to markets where the European Community has been active with its own subsidies. The Community last year sold 1.7m tonnes of wheat to China after selling none the year before. The US last year sold about 7m tonnes to China, of which 6m were under the EEP. However, the future of subsidised sales there had been in doubt. China bought all but 10,000 tonnes of wheat still available under its last EEP offer - a proposal made before the Tiananmen Square massacre.

Scandals shake Dutch into action

Laura Raun on the problems facing the Netherlands' food industry

THE MAXIM that "all publicity is good publicity" is not one that commends itself much to the Dutch food industry just now. Recent months have witnessed a series of damaging scandals, starting in the summer with dioxin contamination of milk and culminating in the continuing case of the lead-poisoned dairy feed.



Mr John Gummer, Minister of Agriculture, at the Royal Smithfield Show earlier this week. He used the phrase "a criminal conspiracy" when the lead-contaminated feed scandal first surfaced last month. Restrictions have been lifted on all but about 30 of the 1,534 British dairy farms prevented from selling milk for the past few weeks because they had received consignments of the contaminated feed. However, some 500 farms are still unable to move or sell beef animals, pending completion of a comprehensive testing system by the agriculture ministry.

Viewed against a background of heightened public concern about food safety - especially in Britain, following the salmonella and listeria scares - these incidents could hardly have come at a worse time for the world's second biggest food exporter. The dioxin-contaminated milk came from cows grazing near rubbish incinerators that were emitting chlorinated dioxins resulting from the burning of plastics. It led to a temporary ban being imposed by Italy on the importation of Dutch dairy products and milk sales from the area around the Rotterdam incinerator have been halved. Then irradiated prawns from the Netherlands found their way to Britain, where irradiated food is forbidden. Irradiation is intended to destroy harmful micro-organisms such as salmonella and listeria but consumer groups fear too little is known about its long-term effects. The latest, and most damaging, scandal concerns the lead-poisoning of dairy feed with rice bran contaminated during transport. This has resulted in the tainting of 100 cows and the tainting of milk and other products on 1,700 farms in the Netherlands and the UK. Two commercial claims, totalling about £1.9m (£2.8m) have been filed in the scandal and the European Commission is still investigating whether there has been criminal activity in member states. The Netherlands is second only to the US as an exporter of farm products, with 9 per cent of the world market, according to the Landbouwschap, the powerful farm union. This includes imported foodstuffs which are re-exported after processing. The country's huge and powerful food sector - comprising ministries, farm associations, agrifinanciers, fish companies, lawyers and insurers - prides itself on consistent quality and careful control. It denies that there is a systematic trade in inferior food, although the industry of a few "rotten apples" is not denied. Consumers view the situation more seriously, however. Mr Louis van Nieuwland, a nutritionist with the Consumers' Union of the Netherlands, says: "The phenomenon of importing cheap or below-normal food, processing and exporting it is called 'Dutching' and is

well known in every country where they try to make money by widening margins." He says there is a relatively well organised "black market" in farm products. "There is a clandestine trade, indeed criminal," he alleges, with beef from condemned cattle being sold illegally through a "low-priced channel". No one claims that more than a few companies regularly trade in damaged food in the Netherlands but those companies are threatening permanent damage to the country's reputation. The companies which deal in grain that has been salvaged for animal feed make up less than 0.05 per cent of a £1.6bn industry which imports up to 90 per cent of its raw materials from outside the EC, according to Mr Johannes den Hartog, head of the industry board for animal feed. Nevertheless, the board has been sufficiently shaken by the lead-poisoning case to introduce a package of control measures, including a permit system for traders in damaged feed ingredients. Mr den Hartog believes between five and 10 traders will be granted permits. Whether the Dutch food sector has been shaken out of its complacency remains to be seen, however. An Agriculture Ministry official, commenting on the lack of figures on the trade in damaged food, said: "We don't have to know how large the trade is... we just have to regulate it."

Two traders freed over tainted feedstuff

By Laura Raun in Amsterdam

TWO DUTCH traders charged with knowingly selling tainted animal feedstuff capable of endangering public health have been released from custody after spending three weeks in jail. Mr Cornelius de Bruijn, owner of the Braijla animal feedstuffs supplier, and Mr Petrus Timmers, an employee, are likely to be prosecuted in connection with the sale of damaged goods, according to the public prosecutors office in Breda. An office spokesman said yesterday that a court date still must be set. De Bruijn sold rice bran contaminated with lead and zinc to Drogerij Markessee, which processed it into high-protein maize gluten replacer pellets. In a separate, civil damages suit, De Bruijn has argued that it knew of no lead poisoning but only of zinc contamination when it acquired the rice bran. The bran was imported to Drogerij Markessee, a Dutch food processing company, and then forwarded to Antwerp before being barged into the Netherlands. The pellets processed from the bran were sold by Drogerij Markessee, a Dutch food processing company, and then forwarded to Antwerp before being barged into the Netherlands. The pellets processed from the bran were sold by Drogerij Markessee, a Dutch food processing company, and then forwarded to Antwerp before being barged into the Netherlands.

Brazilian judge puts freeze on imports of methanol

By John Barham in Sao Paulo

A FEDERAL judge has ordered a temporary halt to Brazil's imports of methanol while the courts decide whether methanol should be added to the nation's fuel supplies. Environmentalists say the Government failed to draw up an environmental impact report showing that methanol is not toxic when burnt as a motor fuel. The Government, which has imported 50m litres of methanol so far, plans to appeal against the court order. If the Government loses, the methanol would be stockpiled for use by the chemicals industry. Earlier, government officials spoke of importing 1.5m litres of methanol. The National Petroleum Council, the government agency overseeing imports, said the health ministry and the Sao Paulo state

Inco to develop nickel mine in north Ontario

By Robert Gibbins in Montreal

INCO, the Canadian nickel producer, is to develop the first big new mine in the Sudbury nickel belt in northern Ontario in more than 20 years. It will cost \$180m (\$35.5m). The McCreey East mine, starting up in 1993, will have a life of at least 20 years. It is owned by the Coleman mine, which is being expanded at a cost of \$40m. McCreey East is the largest known undeveloped high grade nickel-copper sulphide deposit in the Sudbury basin. At peak it should produce 40m lb of nickel and 20m lb of copper yearly. With the latest mining methods, its productivity will be twice that of Inco's existing mines. Inco is also spending \$100m on two nickel projects in Manitoba and is bringing its second gold property into production in north-west Quebec. Carr expects an average cash price of \$4.00 a lb next year with possible trading ranges of \$2.50-\$5.50 a lb.

Caribbean sea island cotton venture formed

By Canute James

THREE Caribbean governments and private interests have created a joint venture to produce high-grade West Indian sea island cotton to take advantage of high prices. The venture, Caribbean Sea Island Cotton Company, based in Barbados, will initially farm just over 4,000 acres in that island, Antigua and Montserrat, and later expects to farm 100,000 acres in Guyana. The project is aimed at rejuvenating what was once a promising industry in the region, and to sell the product in North America, Europe and the Far East. Private investors have a 51 per cent interest in the venture, with Barbados holding 33 per cent, and the remainder shared between Antigua and Montserrat. Guyana will be involved through a local textile mill which will process the cotton produced by the company.

Legal action widens over Phibro cocoa awards

By Canute James

PARTIES owed compensation by Phibro Brothers (Phibro) in a cocoa trade dispute have taken legal steps to make the French court decision ordering the awards apply in Britain, French cocoa trade association (AFCC) members said yesterday. Reuter reports from Paris. The AFCC expelled Phibro, one of the world's leading commodity trading groups, on Tuesday for failing to pay awards of about \$3m which two AFCC arbitration panels and a French civil court had ordered to be paid to the International Cocoa Organisation and five commodities trading houses. Under French law, Phibro's assets in France could be seized once it failed to abide by the court decision, they said. But AFCC members said they believed London-based Phibro Brothers, a unit of Salomon, the US brokerage house, did not have any assets in France. Parties owed compensation by Phibro have taken legal steps to have the French enforcement action apply in Britain and, therefore, to Phibro's British assets, AFCC members said. The members would not say what type of legal steps had been taken. Phibro would be under greater pressure to pay the awards if the French court decision were accepted by a British court because the company's assets there could be seized if it continued to refuse to pay the awards, the AFCC members said. David Blackwell writes: Phibro plans to take legal action to set aside its expulsion from the AFCC. Phibro's action will argue that the company's still appealing against the arbitration awards, which total about \$3m. The AFCC rules say that payments must be made notwithstanding any appeal. The dispute involves the purchase and sale of Ivory Coast cocoa in 1987-88. Phibro continues to deny liability.

WORLD COMMODITIES PRICES

LONDON MARKETS

Table with columns for Commodity, Close, Previous, High/Low. Includes sections for COCOA - London FOB, LONDON METAL EXCHANGE, SPOT MARKETS, and SOYBEAN - London FOB.

COCOA - London FOB

Table with columns for Commodity, Close, Previous, High/Low. Includes sections for SOYBEAN - London FOB and SOYBEAN MEAL - London FOB.

SOYBEAN - London FOB

Table with columns for Commodity, Close, Previous, High/Low. Includes sections for SOYBEAN MEAL - London FOB and SOYBEAN MEAL - 100 long.

SOYBEAN MEAL - London FOB

Table with columns for Commodity, Close, Previous, High/Low. Includes sections for SOYBEAN MEAL - 100 long and SOYBEAN MEAL - 5000 bushel.

SOYBEAN MEAL - 100 long

Table with columns for Commodity, Close, Previous, High/Low. Includes sections for SOYBEAN MEAL - 5000 bushel and SOYBEAN MEAL - 100 long.

LONDON METAL EXCHANGE

Table with columns for Commodity, Close, Previous, High/Low. Includes sections for SOYBEAN MEAL - 5000 bushel and SOYBEAN MEAL - 100 long.

SOYBEAN MEAL - 5000 bushel

Table with columns for Commodity, Close, Previous, High/Low. Includes sections for SOYBEAN MEAL - 100 long and SOYBEAN MEAL - 5000 bushel.

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SOYBEAN MEAL - 5000 bushel

Table with columns for Commodity, Close, Previous, High/Low. Includes sections for SOYBEAN MEAL - 100 long and SOYBEAN MEAL - 5000 bushel.

SPOT MARKETS

Table with columns for Commodity, Close, Previous, High/Low. Includes sections for SOYBEAN MEAL - 100 long and SOYBEAN MEAL - 5000 bushel.

SOYBEAN MEAL - 100 long

Table with columns for Commodity, Close, Previous, High/Low. Includes sections for SOYBEAN MEAL - 5000 bushel and SOYBEAN MEAL - 100 long.

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US MARKETS

Table with columns for Commodity, Close, Previous, High/Low. Includes sections for SOYBEAN MEAL - 100 long and SOYBEAN MEAL - 5000 bushel.

SOYBEAN MEAL - 100 long

Table with columns for Commodity, Close, Previous, High/Low. Includes sections for SOYBEAN MEAL - 5000 bushel and SOYBEAN MEAL - 100 long.

SOYBEAN MEAL - 5000 bushel

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SOYBEAN MEAL - 100 long

Table with columns for Commodity, Close, Previous, High/Low. Includes sections for SOYBEAN MEAL - 5000 bushel and SOYBEAN MEAL - 100 long.

NEW YORK

Table with columns for Commodity, Close, Previous, High/Low. Includes sections for SOYBEAN MEAL - 100 long and SOYBEAN MEAL - 5000 bushel.

SOYBEAN MEAL - 100 long

Table with columns for Commodity, Close, Previous, High/Low. Includes sections for SOYBEAN MEAL - 5000 bushel and SOYBEAN MEAL - 100 long.

SOYBEAN MEAL - 5000 bushel

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SOYBEAN MEAL - 100 long

Table with columns for Commodity, Close, Previous, High/Low. Includes sections for SOYBEAN MEAL - 5000 bushel and SOYBEAN MEAL - 100 long.

CHICAGO

Table with columns for Commodity, Close, Previous, High/Low. Includes sections for SOYBEAN MEAL - 100 long and SOYBEAN MEAL - 5000 bushel.

SOYBEAN MEAL - 100 long

Table with columns for Commodity, Close, Previous, High/Low. Includes sections for SOYBEAN MEAL - 5000 bushel and SOYBEAN MEAL - 100 long.

SOYBEAN MEAL - 5000 bushel

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SOYBEAN MEAL - 100 long

Table with columns for Commodity, Close, Previous, High/Low. Includes sections for SOYBEAN MEAL - 5000 bushel and SOYBEAN MEAL - 100 long.

EC = European Community; FOB = Free on Board; LME = London Metal Exchange; SPOT = Spot; SOYBEAN MEAL - 100 long; SOYBEAN MEAL - 5000 bushel.

LONDON STOCK EXCHANGE

Property sector leads further advance

HEAVY over-subscription for the water privatisation issues and unexpected developments in the property and retail sectors inspired another substantial rise in the UK stock market yesterday.

Account Dealing Dates table with columns for First Dealing, Last Dealing, and Account Dates.

Traders reported substantial buying interest from UK institutions, with European funds also continuing to take huge chunks into their portfolios.

her leadership of the Conservative Party, a factor which has been regarded as potentially more unsetting for foreign than for domestic investors in UK equities.

ish Land hinted earlier this week at its wide-ranging portfolio plans. Property shares have lagged behind the market, against which the sector leaders were showing discounts of around 25 per cent.

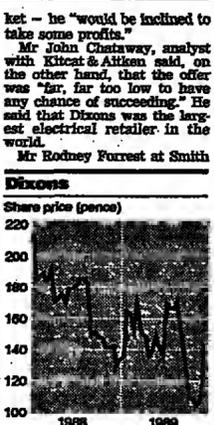
taken by British Land. Among international stocks, Remgro continued to advance strongly as US arbitrageurs, short of stock in New York, sought shares in London.

FINANCIAL TIMES STOCK INDICES table with columns for Dec 6, Dec 7, Dec 8, Dec 9, Dec 10, Dec 11, Dec 12, Dec 13, Dec 14, Dec 15, Dec 16, Dec 17, Dec 18, Dec 19, Dec 20, Dec 21, Dec 22, Dec 23, Dec 24, Dec 25, Dec 26, Dec 27, Dec 28, Dec 29, Dec 30, Dec 31, 1989, 1988, 1987, 1986, 1985, 1984, 1983, 1982, 1981, 1980.

GILT EDGED ACTIVITY table with columns for Gilt Edged Bargains, 5-Day average, and other metrics.

Welcome for British Land plan

British Land marked its return from a day's suspension by rising up by 51 before midday as the market reacted enthusiastically to the board's restructuring plan.



Mr John Chataway, analyst with Kibcat & Atkin said, on the other hand, that the offer was "far too low to have any chance of succeeding."

Leading rose 3 to 130p. Insurances moved sharply higher as Continental takeover speculation reappeared. The likes were among the best performers.

pany, Reeves, for about 57m. The oil and gas sector attracted plenty of support and some good rises across the board.

TRADING VOLUME IN MAJOR STOCKS table with columns for Volume, Change, and various stock symbols.

Mr Rodney Forrest at Smith Dixons. The restructuring involves the creation of a new company, New British Land (NBL), with control over £340m of assets.

New Court also felt that investors should hang on. "Kingfisher must feel that there is a good chance they can get it through the Office of Fair Trading."

Saatchi news. Full-year figures at Saatchi and Saatchi confirmed the company's woes. The shares slipped further on news of an 80 per cent fall in profits.



Equity Shares Traded. Turnover by volume (million). Includes sub-sections for best performing and overvalued shares.

couple of large buyers were said to have been in the market and Smith Industries shares added 4 to 275p.

Dixons activity. Analysts jumped on the morning announcement from Kingfisher that it was considering making a bid for the company.

TSR, heavily bought on Tuesday as talk of European stakebuilding, edged up 2 1/2 more to 129 1/2p on 4 1/2m shares.

United Biunits retreated from the day's high as analysts at Hoare Govett cut profit forecasts from £224m to £216m for 1990.

Thames Television slipped 13 to 488p on news that it was buying a US production com-

But Mr Paul Deacon, an analyst with Goldman Sachs, echoed the caution of most market-makers saying that given the odds on a referral to the Monopolies and Mergers Commission - the combined group would have about a quarter of the UK electrical retailing mar-

who was general manager of the electro-optical systems group of GEC Sensors. Dr Martin Read has been appointed managing director of Marconi Command & Control Systems.

Mr Hugh Parker has been appointed chairman of CORPORATE RENEWAL ASSOCIATES. He was senior director of McKinsey & Co.

Mr D. Peter L. Davies has been appointed a director of PRINCIPALITY BUILDING SOCIETY. He is executive director, corporate finance, N.M. Rothschild and Sons (Wales).

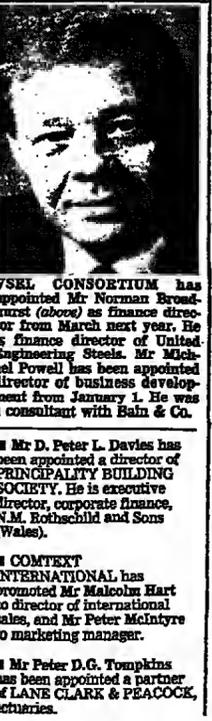
APPOINTMENTS

GEC subsidiary posts

Mr David Fletcher has been appointed a deputy managing director of GEC-Marconi; he was an assistant managing director, and managing director of Marconi Defence Systems.

Finance director at MTS

Mr D. Peter L. Davies has been appointed a director of PRINCIPALITY BUILDING SOCIETY. He is executive director, corporate finance, N.M. Rothschild and Sons (Wales).



YSEL CONSORTIUM has appointed Mr Norman Broadhurst (above) as finance director from March next year. He is finance director of United-Engineering Steels.



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FT UNIT TRUST INFORMATION SERVICE

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AUTHORISED UNIT TRUSTS

Table listing various unit trusts under the 'AUTHORISED UNIT TRUSTS' section, including Abbey Unit Trust, Abbey Unit Trust Managers, and others.

Table listing unit trusts under the 'Abbey Unit Trust Managers' section, including Abbey Unit Trust Managers Ltd, Abbey Unit Trust Managers Ltd, and others.

Table listing unit trusts under the 'Abbey Unit Trust Managers' section, including Abbey Unit Trust Managers Ltd, Abbey Unit Trust Managers Ltd, and others.

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Table listing unit trusts under the 'Abbey Unit Trust Managers' section, including Abbey Unit Trust Managers Ltd, Abbey Unit Trust Managers Ltd, and others.

GUIDE TO UNIT TRUST PRICING. This section provides detailed information on how unit trust prices are calculated, including details on net asset value, unit price, and the impact of charges.

FT UNIT TRUST INFORMATION SERVICE

Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 01-925-2128

Main table containing unit trust information with columns for company name, unit price, and other financial details. Includes sections for 'OTHER UK UNIT TRUSTS' and 'INSURANCES'.

Market... on the... FT Cityline... help desk on 01-925-2128

Continued on next page





LONDON SHARE SERVICE

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AMERICANS - Contd

Table listing American companies such as IBM, Microsoft, and Intel with their share prices and market data.

BUILDING, TIMBER, ROADS - Contd

Table listing companies in the building, timber, and roads sectors.

DRAPERY AND STORES - Contd

Table listing companies in the drapery and stores sectors.

ENGINEERING - Contd

Table listing companies in the engineering sector.

INDUSTRIALS (Miscel.) - Contd

Table listing miscellaneous industrial companies.

INDUSTRIALS (Miscel.) - Contd

Table listing miscellaneous industrial companies (continued).

CANADIANS

Table listing Canadian companies such as Alcan and Inco.

BANKS, HP & LEASING

Table listing banks and hire purchase/leasing companies.

ELECTRICALS

Table listing electrical companies.

FOOD, GROCERIES, ETC

Table listing food, grocery, and other consumer goods companies.

INDUSTRIALS (Miscel.) - Contd

Table listing miscellaneous industrial companies (continued).

INDUSTRIALS (Miscel.) - Contd

Table listing miscellaneous industrial companies (continued).

BANKS, HP & LEASING

Table listing banks and hire purchase/leasing companies (continued).

CHEMICALS, PLASTICS

Table listing chemical and plastic companies.

DRAPERY AND STORES

Table listing drapery and stores companies (continued).

INDUSTRIALS (Miscel.) - Contd

Table listing miscellaneous industrial companies (continued).

INDUSTRIALS (Miscel.) - Contd

Table listing miscellaneous industrial companies (continued).

INDUSTRIALS (Miscel.) - Contd

Table listing miscellaneous industrial companies (continued).

BEERS, WINES & SPIRITS

Table listing beer, wine, and spirit companies.

BUILDING, TIMBER, ROADS

Table listing building, timber, and roads companies (continued).

DRAPERY AND STORES

Table listing drapery and stores companies (continued).

HOTELS AND CATERERS

Table listing hotels and caterers companies.

INDUSTRIALS (Miscel.)

Table listing miscellaneous industrial companies (continued).

INSURANCES

Table listing insurance companies.

BUILDING, TIMBER, ROADS

Table listing building, timber, and roads companies (continued).

DRAPERY AND STORES

Table listing drapery and stores companies (continued).

ENGINEERING

Table listing engineering companies (continued).

INDUSTRIALS (Miscel.)

Table listing miscellaneous industrial companies (continued).

INDUSTRIALS (Miscel.)

Table listing miscellaneous industrial companies (continued).

INDUSTRIALS (Miscel.)

Table listing miscellaneous industrial companies (continued).

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LONDON SHARE SERVICE

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Handwritten note: 5000 shares

LEISURE

Table of share prices for Leisure companies including Leisure Group, Leisure Leisure, Leisure Leisure, etc.

PAPER, PRINTING, ADVERTISING - Contd

Table of share prices for Paper, Printing, Advertising companies including Paper, Printing, Advertising, etc.

TEXTILES - Contd

Table of share prices for Textiles companies including Textiles, Textiles, Textiles, etc.

TRUSTS, FINANCE, LAND - Contd

Table of share prices for Trusts, Finance, Land companies including Trusts, Finance, Land, etc.

OIL AND GAS - Contd

Table of share prices for Oil and Gas companies including Oil and Gas, Oil and Gas, Oil and Gas, etc.

MINES - Contd

Table of share prices for Mines companies including Mines, Mines, Mines, etc.

PROPERTY

Table of share prices for Property companies including Property, Property, Property, etc.

TRUSTS, FINANCE, LAND

Table of share prices for Trusts, Finance, Land companies including Trusts, Finance, Land, etc.

MOTORS, AIRCRAFT TRADES

Table of share prices for Motors, Aircraft Trades companies including Motors, Aircraft Trades, Motors, Aircraft Trades, etc.

COMMERCIAL VEHICLES

Table of share prices for Commercial Vehicles companies including Commercial Vehicles, Commercial Vehicles, Commercial Vehicles, etc.

FINANCE, LAND, ETC

Table of share prices for Finance, Land, Etc companies including Finance, Land, Etc, Finance, Land, Etc, etc.

OVERSEAS TRADERS

Table of share prices for Overseas Traders companies including Overseas Traders, Overseas Traders, Overseas Traders, etc.

PLANTATIONS

Table of share prices for Plantations companies including Plantations, Plantations, Plantations, etc.

THIRD MARKET

Table of share prices for Third Market companies including Third Market, Third Market, Third Market, etc.

NEWSPAPERS, PUBLISHERS

Table of share prices for Newspapers, Publishers companies including Newspapers, Publishers, Newspapers, Publishers, etc.

SHOES AND LEATHER

Table of share prices for Shoes and Leather companies including Shoes and Leather, Shoes and Leather, Shoes and Leather, etc.

SOUTH AFRICANS

Table of share prices for South Africans companies including South Africans, South Africans, South Africans, etc.

OIL AND GAS

Table of share prices for Oil and Gas companies including Oil and Gas, Oil and Gas, Oil and Gas, etc.

FINANCE

Table of share prices for Finance companies including Finance, Finance, Finance, etc.

REGIONAL & IRISH STOCKS

Table of share prices for Regional & Irish Stocks companies including Regional & Irish Stocks, Regional & Irish Stocks, Regional & Irish Stocks, etc.

PAPER, PRINTING, ADVERTISING

Table of share prices for Paper, Printing, Advertising companies including Paper, Printing, Advertising, Paper, Printing, Advertising, etc.

TEXTILES

Table of share prices for Textiles companies including Textiles, Textiles, Textiles, etc.

TRUSTS, FINANCE, LAND

Table of share prices for Trusts, Finance, Land companies including Trusts, Finance, Land, Trusts, Finance, Land, etc.

OIL AND GAS

Table of share prices for Oil and Gas companies including Oil and Gas, Oil and Gas, Oil and Gas, etc.

MINES

Table of share prices for Mines companies including Mines, Mines, Mines, etc.

TRADITIONAL OPTIONS

Table of share prices for Traditional Options companies including Traditional Options, Traditional Options, Traditional Options, etc.

Vertical text on the right margin containing various notices and information.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar eases as D-mark firms

The US dollar weakened yesterday in response to renewed strength by the D-Mark, though trading was quiet as dealers waited for the Federal Reserve's Ten Book, a compilation of economic surveys from the regional Federal Reserve banks, which was released after the London markets had closed.

The dollar opened steadily in London. Institutions sold dollars for D-Marks, but this was offset as some dealers squared their positions. During the afternoon, the dollar began to fall after the US Treasury Under Secretary, Mr David Mulford, said that the dollar's 10 per cent decline against the D-Mark since the Group of Seven's last meeting in September was not an alarming adjustment.

The dollar closed in London at DM1.7650, compared with DM1.7760 on Tuesday. It also finished at ¥143.80 from ¥143.70 on Tuesday, from SFr1.5885 and Ffr0.9500 from Ffr0.9500. The Bank of England's dollar index fell to 68.6 from 68.9.

Dealers were anticipating tomorrow's release of the US November employment report. Non-farm payroll employment is expected to have increased by 155,000, compared with the 283,000 rise in October.

If the report confirms that the US economy is continuing to weaken, then analysts said the dollar could come under further pressure as an easing in monetary policy is anticipated. The dollar was also depressed yesterday by the renewed strength in the D-Mark. It had paused for breath at the beginning of the week, however, the continuing political upheaval in Eastern Europe prompted investors to buy D-Marks, particularly against the Yen. The D-Mark rose to ¥185.5, up 56 points on the day.

The Swiss Franc softened against the D-Mark on disappointment that Swiss monetary policy had not been tightened. Analysts said that behind the Swiss Franc's decline lay worries about fundamental factors. Switzerland's inflation remains higher than West Germany's while its

money market rates are lower. Mr David Cooker, chief economic adviser at Chemical Bank, said the D-Mark was threatening to break above SFr0.9000, a level it was last at in March 1981. The D-Mark closed at SFr0.9880, compared with SFr0.9850. Sterling was broadly steady on market relief after the victory of Mrs Margaret Thatcher in the Conservative Party leadership election contest. Some early buying on the back of the result supported sterling, though for most of the day the pound was on the sidelines, moving higher against the weaker dollar and easing against the stronger D-Mark. It closed at \$1.5760 on Tuesday, \$1.5700 on Monday, SFr1.5200 from SFr1.4965, and ¥226.50 from ¥225.70. Sterling's effective exchange rate index closed 0.1 lower at 88.3.

EURO CURRENCY INTEREST RATES

Table with columns for Dec 6, Short term, 7 Day notice, One Month, Three Months, Six Months, One Year. Rows include Sterling, US Dollar, Swiss Franc, etc.

STERLING INDEX

Table with columns for Dec 6, Latest, Previous. Rows include US Dollar, Japanese Yen, etc.

CURRENCY RATES

Table with columns for Dec 6, Bid, Offer, Spread, European Unit. Rows include Sterling, US Dollar, etc.

CURRENCY MOVEMENTS

Table with columns for Dec 6, Bid, Offer, Spread, European Unit. Rows include Sterling, US Dollar, etc.

OTHER CURRENCIES

Table with columns for Dec 6, Bid, Offer, Spread, European Unit. Rows include Argentine, Australian, etc.

FINANCIAL FUTURES AND OPTIONS

LEFFE LOW CRYSTAL FUTURES OPTIONS

Table with columns for Strike, Call, Put, etc. Rows include Dec 12, Dec 19, etc.

LEFFE TREASURY BOND FUTURES OPTIONS

Table with columns for Strike, Call, Put, etc. Rows include Dec 12, Dec 19, etc.

LEFFE BOND FUTURES OPTIONS

Table with columns for Strike, Call, Put, etc. Rows include Dec 12, Dec 19, etc.

LEFFE EURO CURRENCY OPTIONS

Table with columns for Strike, Call, Put, etc. Rows include Dec 12, Dec 19, etc.

LEFFE EURO CURRENCY OPTIONS

Table with columns for Strike, Call, Put, etc. Rows include Dec 12, Dec 19, etc.

LEFFE SHORT TERM EURO CURRENCY OPTIONS

Table with columns for Strike, Call, Put, etc. Rows include Dec 12, Dec 19, etc.

CHICAGO

Table with columns for Dec, Jan, Feb, etc. Rows include Dec 12, Dec 19, etc.

JAPANESE YEN INDEX

Table with columns for Dec, Jan, Feb, etc. Rows include Dec 12, Dec 19, etc.

POUND-STERLING EXCHANGE

Table with columns for Dec, Jan, Feb, etc. Rows include Dec 12, Dec 19, etc.

SWISS FRANC CASH

Table with columns for Dec, Jan, Feb, etc. Rows include Dec 12, Dec 19, etc.

THREE-MONTH EURO CURRENCY

Table with columns for Dec, Jan, Feb, etc. Rows include Dec 12, Dec 19, etc.

LONDON CLIFFED

Table with columns for Dec, Jan, Feb, etc. Rows include Dec 12, Dec 19, etc.

SWISS FRANC CASH

Table with columns for Dec, Jan, Feb, etc. Rows include Dec 12, Dec 19, etc.

STANDARD & POOR'S 500 INDEX

Table with columns for Dec, Jan, Feb, etc. Rows include Dec 12, Dec 19, etc.

US TREASURY BONDS

Table with columns for Dec, Jan, Feb, etc. Rows include Dec 12, Dec 19, etc.

PHILADELPHIA SEV'S OPTIONS

Table with columns for Dec, Jan, Feb, etc. Rows include Dec 12, Dec 19, etc.

THREE-MONTH EURO CURRENCY

Table with columns for Dec, Jan, Feb, etc. Rows include Dec 12, Dec 19, etc.

6% NATIONAL GERMAN GOVT. BOND

Table with columns for Dec, Jan, Feb, etc. Rows include Dec 12, Dec 19, etc.

EUROPEAN OPTIONS EXCHANGE

Table with columns for Dec, Jan, Feb, etc. Rows include Dec 12, Dec 19, etc.

THREE MONTH STERLING

Table with columns for Dec, Jan, Feb, etc. Rows include Dec 12, Dec 19, etc.

6% NATIONAL LONG TERM JAPANESE GOVT. BOND

Table with columns for Dec, Jan, Feb, etc. Rows include Dec 12, Dec 19, etc.

EMS EUROPEAN CURRENCY UNIT RATES

Table with columns for Dec 6, Bid, Offer, Spread, European Unit. Rows include Sterling, US Dollar, etc.

THREE MONTH EURO CURRENCY

Table with columns for Dec, Jan, Feb, etc. Rows include Dec 12, Dec 19, etc.

THREE MONTH STERLING

Table with columns for Dec, Jan, Feb, etc. Rows include Dec 12, Dec 19, etc.

EXCHANGE CROSS RATES

Table with columns for Dec 6, Bid, Offer, Spread, European Unit. Rows include Sterling, US Dollar, etc.

THREE MONTH EURO CURRENCY

Table with columns for Dec, Jan, Feb, etc. Rows include Dec 12, Dec 19, etc.

THREE MONTH STERLING

Table with columns for Dec, Jan, Feb, etc. Rows include Dec 12, Dec 19, etc.

MONEY MARKETS

Rates steady

UK money market rates were unchanged yesterday, reflecting sterling's stability after Prime Minister Mrs Margaret Thatcher's victory in the Conservative Party leadership election. The key three-month interbank rate was quoted at 15 1/2 per cent, unchanged from Tuesday. In the futures market, trading was quiet. The short sterling contracts gave little direction and prices were stuck in a narrow range. The Bank of England initially forecast a shortage of around £1.75bn and an early round of bill offers was invited, at which £213m were purchased. This included £455m of band 2 bank bills which were bought outright at 14 1/2 per cent, while £235m were purchased for resale to the market on December 27 at 14 1/2-14 3/4 per cent.

to the market on December 27 at 14 1/2 per cent. During the afternoon, the bank bought £161m of band 2 bank bills at 14 1/2 per cent. Finally, it provided little assistance of around £110m in uncrossed rates. Factors contributing to the £1.75bn forecast shortage included, a take-up of Treasury bills and maturing assistance, which were expected to drain £633m, Exchequer transactions of £760m, a rise in the note circulation of £195m, and bankers' balances £180m below target. In Frankfurt, the Bundesbank accepted bids for DM19.5bn at this week's 35-day securities repurchase pact at a fixed rate of 7.30 per cent. The auction replaced an earlier pact of DM21.3bn which expired yesterday, causing a net DM1.4bn to be drained from the market. Call money eased slightly to 7.65-7.70 per cent, from 7.70-7.75 per cent on Tuesday. Analysts said the easing reflected a market perception that the pressures on the Bundesbank to tighten monetary policy before the end of the year had weakened slightly.

In New York, the Federal Reserve did not conduct open market operations, which was as the market expected. Federal Funds were trading at 8 1/2 per cent at the usual time for the Fed's market operations, compared with 8 1/2 per cent on Tuesday.

FT LONDON INTERBANK FIXING

Table with columns for 3 months US dollars, 6 months US dollars. Rows include bid, offer.

MONEY RATES

Table with columns for New York, Treasury Bills and Bonds. Rows include One month, Three months, etc.

LONDON MONEY RATES

Table with columns for Dec 6, Overnight, 7 days notice, One Month, Three Months, Six Months, One Year. Rows include Interbank Offer, etc.

BASE LENDING RATES

Table with columns for Bank Name, Rate. Rows include ASN Bank, Adams & Company, etc.

CLASSIFIED ADVERTISEMENT RATES

Table with columns for Appointment, Commercial and Industrial Property, etc. Rows include Appointment, Commercial and Industrial Property, etc.

GRANVILLE SPONSORED SECURITIES

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GRANVILLE SPONSORED SECURITIES

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IG INDEX

9-11 GROSVENOR GARDENS, LONDON SW1W 0BG. Tel: 01-828 7233. AFB member. FTSE 100 WALL STREET. Dec. 23/99/2379 +34. Dec. 27/02/2752 N/C. Jan. 23/84/2394 +44. Jan. 27/02/2768 N/C. 5pm Prices. Change from previous 9am close.

GOLD Time to buy?

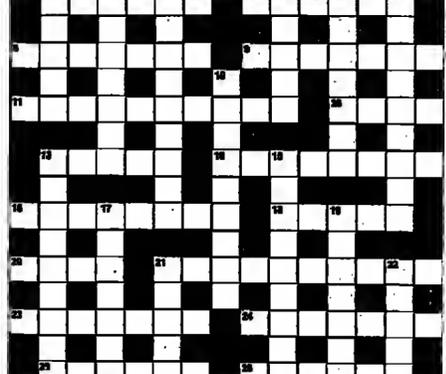
Call for our current views. CAL Futures Ltd, Windsor House, 50 Victoria Street, London. SW1H 0JN. Tel: 01-792 2213. Fax: 01-799 1321.

JOTTER PAD

Table with columns for Dec, Jan, Feb, etc. Rows include Dec 12, Dec 19, etc.

CROSSWORD

No.7,109 Set by DINMUTZ



- ACROSS: 1 Ground-vent deposit set? (6), 4 Harness to get one's back up (7), 8 Taken film back to see witness scummeage after run? (7), 10 Ground overcast - it looks very black (7-4), 11 Bottom of the flying-class? (6-4), 12 Steps to make the bronzed look disappear? (9), 14 Face fine, possibly, for having stimulant? (6), 16 Contemplated being betrothed? (6), 18 Lower - look - a daisy! (5), 20 Planned go at encircling Julius Caesar? (4), 21 Clean furs ordered for this breakfast-food? Surely not! (10), 23 Switched on telly - fish kept in it (4-3), 24 Crossed-generator going by air? (7), 25 Surgeon who was endlessly sterile, in a way (6), 26 Supplies for supermarkets (6), DOWN: 1 Composition of article (5), 2 Motorised letter-carrier - v - animal variety? (4-3), 3 This cargo separates the sandalwood from the wine (6)

Solution to Puzzle No.7,108. A crossword puzzle solution grid with letters filled in.

هكذا على النقص

WORLD STOCK MARKETS

Main table of world stock markets including sections for Australia, Canada, Germany, Italy, Japan, New York, and various regional indices. Each section lists stock symbols, prices, and percentage changes.

Canada section containing Toronto 3pm prices for December 6, listing various Canadian stocks and their market performance.

Indices section providing a summary of major stock indices from various countries, including Dow Jones, Nikkei, and others.

New York Active Stocks section listing active trading in the NYSE, including stock symbols, prices, and volume.

Tokyo - Most Active Stocks section listing the most active trading in the Tokyo stock market for Wednesday, December 6, 1989.

Advertisement for Financial Times featuring the slogan 'Keep the world in focus.' and 'Travelling by air on business?'. It includes contact information for the newspaper and a graphic of a globe.



NYSE COMPOSITE PRICES

NASDAQ NATIONAL MARKET

3pm prices December 6

Table of NYSE Composite Prices listing various stocks with columns for stock name, price, and change.

Table of NASDAQ National Market listing various stocks with columns for stock name, price, and change.

Notes and legends explaining the data in the NYSE table, including symbols for stock types and price movements.

AMEX COMPOSITE PRICES

Table of AMEX Composite Prices listing various stocks with columns for stock name, price, and change.

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AMERICA

Dow slips in wait for jobs statistics

Wall Street

DULL TRADING continued on stock exchanges yesterday as dealers maintained cautious positions prior to tomorrow's November employment figures...

firming what is now a widely held perception of the economy. Neither the bond nor stock market has had any motivation to do anything this week...

restructuring, including the cutting of 10,000 jobs. IBM fell 3/4% to \$88 1/2 yesterday, leaving it below the level it was trading at before the announcement...

early loss to gain 3/4% to \$19 1/4. Among featured individual stocks, McGraw Hill added 3/4% to \$88 1/2. A long-time takeover candidate, the stock rose on reports that it may be considering a restructuring...

SOUTH AFRICA

GOLD STOCKS led an afternoon advance in Johannesburg after a quiet opening. Positive factors included the stable bullion price, the weak financial rand and demand for

mining and industrial issues. De Beers, the diamond miner, gained R1.70 to R58.50 after announcing it would proceed with its R1.1bn diamond mine development in the Transvaal

ASIA PACIFIC

Nikkei bounces back in defiance of cooling move

Tokyo

AN OFFICIAL move to curb the market failed to cool investors down yesterday, and share prices closed at a third consecutive record, writes Michiko Nakamura in Tokyo.

third in volume with 28.5m shares, fell ¥10 to ¥82. Nippon Steel dropped ¥7 to ¥80 in active trading.

until tomorrow. The market was also affected by rumours that the Hong Yuen Group, a big stock market trader, has been having financial problems.

EUROPE

Eastern promise swells Frankfurt volume

THE POLITICAL miracle in Eastern Europe brought Frankfurt back into the van yesterday, although other senior markets had their talking points, writes Our Markets Staff, Madrid and Helsinki were closed for public holidays.

and Axa-Mid had similarly rallied round in recent weeks. The OMF 50 index rose 5.38 to 537.20 and the CAC 40 was up 21.03 to 1,960.29.

MILAN went nowhere, on balance, as it milled over the November mutual funds figures and the Ferruzzi/Fondaria/Galc deal.

AMSTERDAM had another quiet day, with turnover at a fairly thin F160m and the CBS tendency index falling 0.7 to 186.8 after early declines on Wall Street.

BRUSSELS was pulled higher by gains in holding company Societe Generale de Belgique, which added Bfr90, or 2.7 per cent, to Bfr3,470. It is expected to announce a restructuring of its non-ferrous mining and metallurgical interests today.

Trading in La Fondiaria

Blue chips had another good run with Deutsche Bank, second in volume with DM1,070m, climbing DM10.10 to DM30 and Siemens up DM8 to DM38.

OSLO remained in a positive frame of mind, as industrial issues attracted buyers. The all-share index gained 3.59 to 466.90 on turnover of Nkr238m.

STOCKHOLM concentrated on the possible merger of PK-Banken and Nordenbanken, both of which were suspended before an announcement today.

VIENNA edged again, as the Credit Aktien Index added 2.49 points, or 2 per cent, to 437.92. Girozentrale, the Austrian bank, predicts continued, long-term interest in the bourse.

Turnover retreated to 1.2bn shares from the 1.4bn traded on Tuesday and the Topix index of all listed shares rose 15.50 to 2,267.32.

Special situation issues, especially those which have attracted takeover talk, were popular. Toyo Samsu, an oxygen producer, rose ¥240 to a record high of ¥3,790 during the day.

Continuing overseas institutional buying and renewed local investor interest were spiced with takeover rumours involving, among others, UIC, Singapore Land and Hind Hotel.

NEWS CORP led winners in the industrial section with a 60-cent rise to A\$14.90. James Hardie Industries rose 6 cents to A\$2.68 on a 30 per cent rise in first-half net profit.

After falling to a low of 37,290.36, the Nikkei closed at its high for the day of 37,694.23, up 160.12.

Osaka took tighter margin trading rules in its stride and the OSE average climbed to its 12th consecutive record of 38,747.19, up 144.98.

The All Ordinaries index edged up 2.5 to 1,639.6 after a 9.3 fall on Tuesday as mining issues tumbled on a sharp fall in the gold price.

NEW ZEALAND blamed Australia as the Barclays index fell 21.28 to 3,051.33, in volume down to 5.9m shares from 9.8m.

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Table with columns: NATIONAL AND REGIONAL MARKETS, FT-ACTUARIES WORLD INDICES, Tuesday December 5 1989, Monday December 4 1989, Dollar Index. Rows include Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Italy, Japan, Malaysia, Mexico, Netherlands, New Zealand, Norway, Singapore, South Africa, Spain, Sweden, Switzerland, United Kingdom, USA, Europe, Nordix, Pacific Basin, Euro-Pacific, North America, Europe Ex. UK, Pacific Ex. Japan, World Ex. US, World Ex. UK, World Ex. So. Am., World Ex. Japan, World Index.

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SECTION III  
**FINANCIAL TIMES SURVEY**

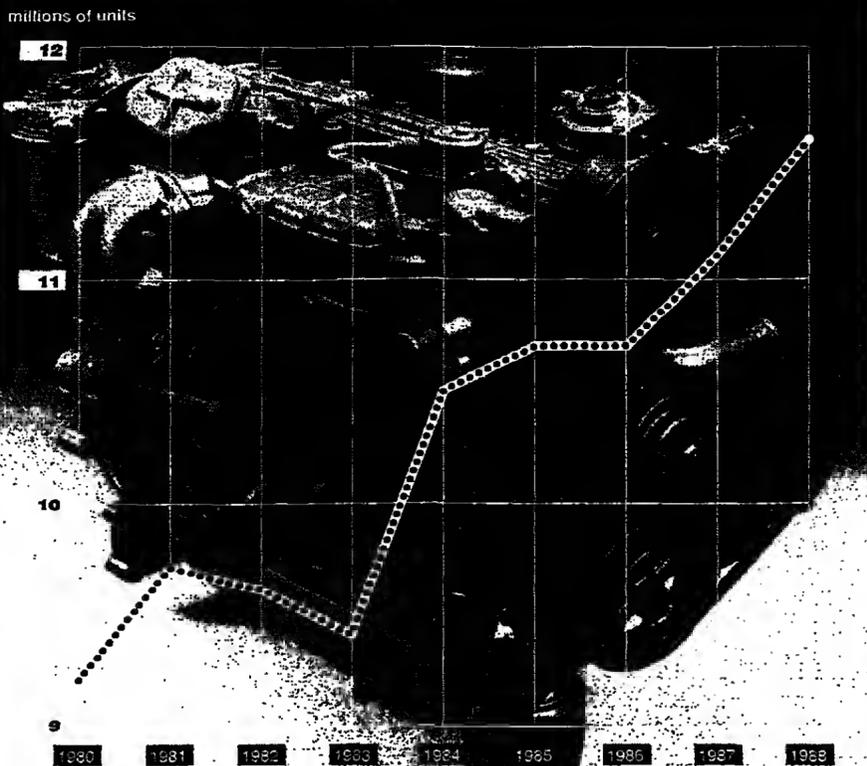
**As the industry has seen a process of rationalisation, Japanese suppliers have been making inroads into the European market — a pressure that will intensify, predicts Nick Garnett. At the same time, a range of important technical developments is emerging.**

**Mergers accelerate**

THE WORLD'S diesel engine industry has been facing up to some of the biggest-ever shifts in its market and structure during the past two years. Demand for diesels in passenger cars has plummeted, particularly in West Germany and Italy. The French market is the only one that has held up strongly, as a result of which the French diesel industry overtook that of Germany last year as Europe's biggest diesel producer. At the same time, diesel manufacturers have witnessed a process of gentle rationalisation, which has altered the industry's ownership base. This has happened partly on the back of mergers and take-overs among truck and car makers. But it has also occurred as a result of the battle between Germany's MAN and Wartsila, of Finland, both of which have been buying out or taking stakes in other diesel-makers, especially in marine engines. While all this has been going on, Japanese suppliers have been making substantial inroads into the European diesel market. In the past four years, the Japanese sales share of diesels under 50hp has risen from 7 per cent to 15 per cent, according to Planning

Research and Systems (PRS), a London-based consultancy that specialises in the automotive and engine industries. This competitive pressure could get worse, because Yanmar, Japan's biggest diesel-maker, appears ready to launch an assault on the European market for small diesels with a new air-cooled engine, in competition with indigenous producers like Germany's Deutz and Lister Peiper, of the UK. A range of technical developments is also emerging in the market. It includes electronic management, to improve emission control; direct-injection, which first appeared on an engine for the Fiat Croma; intercooling, and "turbo-compounding" for truck engines — the use of a second turbo-charger in the drive train. Until the start of this year, the world market for diesels had continued to perk up since the depths of recession back in the mid-1980s. Total sales of diesels last year was 11.6m units, compared with 11.1m in 1987. This compares with a slide of 300,000 between 1981 and 1983 (9.4m) and a static market of around 10.5m until 1987. Last year, in terms of application, growth was achieved in commercial vehicles, construction

**WORLD PRODUCTION OF DIESELS**



THE WORLD  
**Diesel Engines**  
 INDUSTRY

machinery and industrial equipment, while the agricultural machinery market was static. The only sector to record a fall was the diesel car market, which was down by 100,000 units. This reflected a process over the past two years, during which the penetration of the diesel in the Italian and West German car markets was pushed into reverse. Environmental issues and general perceptions about

emissions from diesels resulted in a reduction in diesel penetration of the German car market, from a peak of 27 per cent in 1986 to about 10 per cent. This affected most car-makers, but Mercedes in particular. Changes in road taxes contributed to a slide in the Italian market, too. Diesels had achieved a 24.5 per cent share of the car sector, but it is now down to 13 per cent. The total market for car diesels will probably have fallen

again this year, with penetration in western Europe expected to be down a percentage point to 14 per cent. But some observers believe this slide may be coming to a halt, particularly in West Germany, and might even be reversed. All the main German car-makers have brought out new engines with electronic controls, and Volkswagen has installed a catalytic converter on one of its new diesels. Environmental issues have

left the French market totally unconcerned, and penetration there has continued to grow. The diesel took just over 18 per cent of the French car market in 1987. This has bolstered the strong growth of Peugeot and Renault as diesel producers. PSA's diesel production last year was about 750,000 units. Total diesel production in France is two and a half times higher than in 1982. Diesel penetration in the Japanese car market is at

about 5 per cent. It remains insignificant in the UK, while the car diesel has been virtually wiped off the map in the US. In 1981, 521,000 diesel cars were sold in the US. Last year, the figure was 1,650, almost all of them were German-built Mercedes.

Makers of truck diesels have also been busy on the technical front, with some of the work directed at emissions. Navistar last month announced what it claimed was the first smokeless truck diesel. The international 94 uses a catalytic converter and low-sulphur(0.5%) diesel fuel, and incorporates engine components which result in more complete combustion.

After a strong recovery from the dismal trough of the early 1980s, the European truck market appears to have peaked in the second half of this year, though sales prices remain reasonably healthy. The north American truck market has already moved into a cyclical downturn, and pricing is horrendously tough. This will put extra pressure on all diesel suppliers, in particular Cummins, the large independent US diesel-maker. Its policy of low pricing, aimed at maintaining its share of the market against Japanese suppliers, worked in terms of market-penetration, but the penalty on profits has been drastic.

Japanese producers are still exerting a lot of pressure on the market. Some of this comes from direct exports. In some cases, western makers willingly take Japanese engines to bolster their product lines. Perkins signed a deal last year to sell ISM engines with the Perkins brand-name.

The next stage could come from Yanmar in small diesels. Some European makers of small diesels, like Lombardini in Italy, have abandoned air-cooled technology and moved into water-cooled. Yanmar, family-owned and one of the biggest diesel-makers in the world (it produces 250,000 units a year), has gone the other way and is highly confident about increasing its European penetration for such applications as compressors, mini-tractors and small construction machinery, with its new air-cooled unit.

It is not all one way though. Japanese manufacturing companies provide new opportunities for some European diesel makers. Volkswagen is to supply diesels for the Nissan car plant in the UK and for Toyota vans.

The ownership structure of the industry has been going through some significant shifts. Some of this has been on the back of take-overs among truck-makers who manufacture diesels. The most

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recent ones include the purchase of the truck operations of Steyr-Daimler-Puch, in Austria, by MAN and the battle for control of Enasa which, along with trucks, also makes about 23,000 diesels a year in Spain. In the long run, these deals are bound to lead to engine rationalisation. Leyland stopped making truck diesels in the UK following its take-over by DAF. There is speculation about the long-term engine strategy of Ford, following the merger of its European truck operations with Iveco.

The recent decision by the cartel office to block MAN's purchase of the engine business of Sulzer of Switzerland — a decision which MAN is challenging in federal government level — is a further twist in the restructuring of heavy, especially marine diesels in Europe.

Over the past few years, the most active participants have been MAN and Wartsila of Finland. The latter company, having watched its German competitor grow through acquisition has adopted a similar policy.

Acquisitions in the past 10 years or so by MAN have included Birmeister and Wain, in Denmark, and, much more recently, Fiatelco of France with its medium-speed engines. There is also a link in diesels between MAN and Alsthom of France, which has itself been put into a merged grouping with the heavy-engineering business of the UK's GEC. A deal with Sulzer would consolidate MAN's strong position.

Meanwhile, Wartsila purchased an important presence in high-speed diesel engines by obtaining this year a 42 per cent stake in SACM Diesel of France. In October, it acquired 60 per cent of Stork-Werkspoor Diesel, the Dutch medium-speed diesel maker, having already bought two companies in Scandinavia.

Other changes include a type of management buy-out at VM, in Italy and, last year, the merger of the distribution networks in north America of Perkins and Detroit Diesel.

\* World Engine Study, 1989. World Engine Digest 1989, PRS, 44-48 Dover St, London W1X 3RF.

Nowadays, what a vehicle does to the open air is as important as what it does on the open road.

And, because we are responsible for more of Europe's commercial vehicles than anyone else, we have to be more responsible than anyone else.

But how are we able to get less out of our engines and still get the most out of them?

As always, the principles are easy:

Greater fuel efficiency lowers fuel consumption and emissions.

Fuel efficiency depends on maintaining the precise mixture of air at the right temperature.

But conventional systems couldn't put these principles into practice. So we designed new ones.

For instance, to create the right temperature for the fuel we designed a special pre-injection mechanism (allowing a small amount of fuel to go in first and "warm up" the combustion chamber for the main quantity).

While special nozzles and higher injection pressure make combustion more efficient.

We even redesigned the combustion chambers themselves to ensure fuel is burnt more completely, so less escapes into the atmosphere.

To further reduce noise, exhaust emissions and fuel consumption, we lowered our engine speeds. Doing this without any loss of performance meant developing something called a two-stage boost pressure compensator.

Admittedly, a bit of a mouthful but it means everyone gets less of a lungful.

And to prevent engine smoke at low temperatures we've introduced "flame starting systems" as an option on all commercial vehicles. (They also make cold starting easier; even when it's as cold as -35°C.)

In all, the innovations we've introduced in truck design have reduced harmful hydrocarbon and



carbon monoxide emissions by 40% since 1983. While related developments such as our DISEL '89 engines have similarly reduced van emissions by 30% and car emissions by 40%.

And when we got going on our urban vehicles, we decided to put a stop to particulate emissions too. We've patented a device which traps up to 80% of them. But rather than wait for the

competition to catch up we've offered this device to all other major manufacturers. (Just because we eat, sleep and breathe trucks we don't see why anyone else should.)

Meanwhile, we'll continue to improve our engines — because it's not just our future that depends on it.



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**DIESEL ENGINES INDUSTRY 2**

TECHNICAL DEVELOPMENTS: the big challenges are consumption and emissions

**A future friend of environment**

THE DIESEL engine is the natural choice of power unit in a wide range of applications, without serious competition from alternative prime movers. Yet it is subject to considerable economic and legislative pressures to develop and improve its performance.

In the case of large engines running continuously for long periods, the cost of fuel dominates most other factors; and designers strive to reduce fuel consumption and increase tolerance to cheaper fuels of poorer quality.

Such is the achievement of the very large slow-speed marine engines that they can operate on fuel that it would be difficult to burn in a grate.

In addition to the drive to reduce fuel consumption, the diesel is under pressure to reduce the level of exhaust emissions released to the atmosphere. This requirement has become critical in the passenger-car market, and is rapidly approaching in the truck sector. In non-automotive applications, it is also important, particularly for agricultural and construction equipment.

The critical area in which technical developments can improve fuel consumption and reduce emissions is the control and management of combustion. As a result, much attention is being paid to the development of improved fuel-injection systems and of electronic management of the overall combustion process.

In the passenger-car sector, electronic control of ignition timing and other parameters has been in use for several years on gasoline engines. One of the attractions of the diesel engine is that, traditionally, it has been mechanically controlled and has achieved greater reliability from its independence of electrical systems.

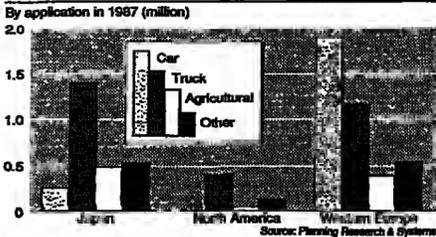
However, with the continuously improving efficiency of gasoline engines and the rapid change in attitudes to exhaust emissions, the passenger-car diesel is being forced to consider electronic control, both to maintain its advantage in fuel consumption and to meet perceived and legislated levels of exhaust emission.

Electronic engine management control systems are already offered on some diesel

**World diesel production in 1988**



**Diesel engine production**



cars, and a recent study by automotive consultants PRS, in western Europe, found that most car manufacturers expect to incorporate them on their diesel models by 1992. The exceptions were producers of small diesel engines, which can more easily meet the existing and proposed legislation.

The objective of electronic systems in a diesel engine is to control the timing and quantity of the fuel injected into the combustion chamber. In addition, turbocharger pressure and exhaust gas recirculation can be controlled. Electronic control can offer up to 5 per cent savings in fuel consumption, and enables significant reductions in exhaust emissions to be achieved.

With electronic control, diesel passenger cars are likely to be able to meet future exhaust emissions legislation. In response to the adverse public attitude to diesel cars, particularly in Germany, in the past year, the major producers, Mercedes-Benz, VW and BMW, have all made considerable

progress in reducing emissions levels. VW has introduced a diesel version of the Golf with an oxidation catalyst, resulting in very low hydrocarbon and carbon-monoxide levels, more as a gesture to public concern than as a requirement to meet exhaust legislation.

The biggest unsolved problem for diesel passenger cars is the development of a regenerative particulate trap to remove soot particles from the exhaust. This has been a real concern, particularly for the Californian market where the legislation is very strict indeed. However, developments in combustion-chamber design and the application of electronic engine management systems have ensured that, at least in western Europe, where the major demand for car diesels exists, the particulate trap will not be necessary.

For a long time just round the corner, but at last coming into sight, is the direct-injection passenger-car diesel. Direct injection offers up to 20 per cent better fuel economy

and is a major factor in the diesel engine's competitive future. Its main disadvantages have been emissions levels and noise, and these have so far limited its use mainly to vans, although Rover and Fiat both offer direct-injection engines in some models.

Exhaust emissions can be reduced only by tighter control of the fuel and combustion systems, and this will be achieved through electronic control and high-pressure fuel injection.

The noise problem is being addressed through the use of a two-stage injector. This allows a small volume of fuel to be injected ahead of the main injection, and has the effect of reducing the rate of pressure rise (and hence noise) in the cylinder.

Whereas car diesels look capable of meeting future legislation without fundamental change, the same cannot be said for heavy trucks. Here, the combined demand for reduced consumption and lower emissions will dominate developments over the next decade. Electronic control of fuel injection will be universally used to optimise combustion, control injection duration more tightly, and reduce emissions.

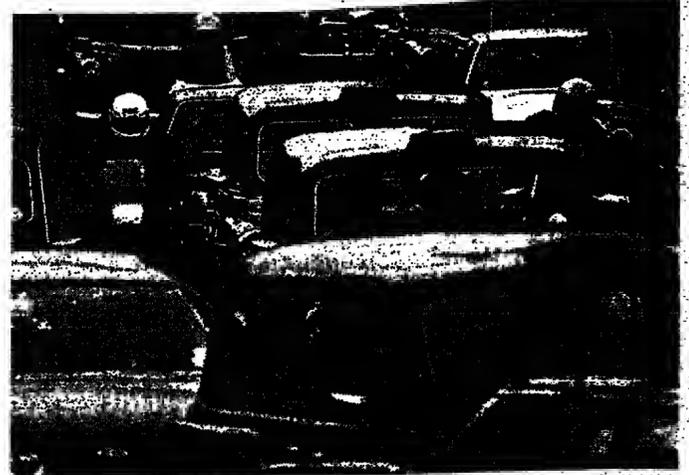
Both injection pressure and rate will be significantly increased, with fuel pressures up to 1500 bar being achieved in pump-line systems and possibly up to 2200 bar with unit injectors. Variable valve-timing, already used on some advanced passenger-car engines, will be used to optimise aspiration at varying engine speeds, improving fuel consumption and cold starting.

Turbocharging and aftercooling will be developed, to achieve greater efficiencies. Variable geometry turbochargers will be used to optimise efficiency across the speed range, and ensure adequate boost at low speeds to control emissions. Ceramic turbocharger components will be used to increase temperature limits and reduce inertia.

There is considerable interest in turbo-compounding, and it is accepted that this technology will find applications in heavy-duty trucks. Scania is a leader in this development. Exhaust port and manifold insulation through the use of ceramic liners, will reduce heat loss and increase the benefits of turbocharging and compounding.

Insulating coatings, and even monolithic layers, may be used on piston-crowns and cylinder-heads to reduce heat loss to the coolant. Other ceramic applications are likely to include piston-rings and valve train components, to reduce friction and wear.

Although the true adiabatic engine is no longer an objective, efforts are being made to raise temperatures within the combustion chamber, and a critical requirement here is the development of high-temperature resistant synthetic lubri-



Noise and exhaust are problems facing the car sector

cants. Particulate traps will be essential to meet 1994 legislative limits and, in contrast to passenger-car applications, considerable progress has been made in the truck and bus sector.

Three types of operation have been considered. In the first, the trap acts only as a filter, and is not regenerative. In the second, the trap is regenerated by burning off the soot particles at specific inter-

vals when the engine is not operating. The third approach is fully automated, and the soot is burned off when the back pressure reaches a predetermined level. This takes place while the engine is running, and does not interfere with normal operation.

Although it will be difficult and expensive to reduce diesel engine emissions to very low levels in the future, the increasing concern about carbon dioxide will be seen to be a

powerful argument in favour of diesels. Carbon dioxide emissions cannot be processed or converted, and their volume is in direct proportion to the quantity of fuel burned.

Since the diesel engine uses significantly less fuel than any of its competitors, it is likely to achieve a new reputation as an environment-friendly choice.

Michael Smith  
PRS Consulting Group

**MARINE ENGINES**

**A more optimistic outlook**

THE SHIPPING industry has been waiting impatiently since March for the resolution of a battle over the proposed sale of the loss-making marine diesel activities of Sulzer of Switzerland to MAN of West Germany. The deal was stalled in August by the West German cartel office, which refused to allow it to go ahead, because of the potential impact on West Germany's domestic shipping industry, in which the two companies have a virtual duopoly of supply.

MAN has refused to accept the decision, and has appealed to the West German Economics Ministry, which has the power to overrule the cartel office. The ministry is not expected to do so, because its responsibilities extend only to the health-

of Japan; and Hyundai, in South Korea. Sulzer's licensees include the major shipbuilders: Finccantieri, in Italy, and Astilleros Espanoles, in Spain; Ishikawajima-Harima Heavy Industries, Mitsubishi Heavy Industries, Nippon Kokan KK, and Sumitomo Heavy Industries, in Japan; Korea Heavy Industries, in South Korea; Taiwan Machinery Manufacturing, in Taiwan; and Shanghai Shipyard, in China.

No accurate figures exist for market share in terms of design, but industry estimates suggest that at least 60 per cent of large marine diesel

only 521 ships of 16.5m dead-weight tonnes were completed, compared with 1,113 ships of 23m dwt as recently as 1982. The outlook for the shipyards is beginning to change, however, partly because improvements in world trade have increased the profitability of existing ships, and partly because the increasing age of the world fleet means that a large number of ships will have to be built in the 1990s simply to replace tonnage which has to be retired.

As a result of this more optimistic outlook, there has been a move in Japan towards co-operative development of a new

because of the difficulties of the Finnish shipbuilding industry, which has found it hard to compete with the low-cost Asian producers and the subsidised yards of the European Community.

Wärtsilä has majority shareholdings in a number of non-Finnish engine-builders - including Wichmann of Norway, Echevarria of Spain and Nohab of Sweden - and has recently taken a 60 per cent stake in Stork-Werksport Diesel, of The Netherlands, and a 42 per cent holding in Duvans-Capelle, of France. As a result of these interests, production of marine diesel engines of more than 500hp last year amounted to more than 130 units.

**The MAN/Sulzer domination of the market for large marine diesels dates from the pre-eminence of European shipbuilding until the 1960s, before the emergence of first Japan and then South Korea as shipbuilding superpowers**

engines are built to designs produced by either Sulzer or MAN. Mitsubishi is thought to be the second most important designer, with around 9 per cent of the market.

The MAN/Sulzer domination of the market for large marine diesels dates from the pre-eminence of European shipbuilding until the 1960s, before the emergence of first Japan and then South Korea as shipbuilding superpowers. It contrasts sharply with the distribution of world shipbuilding orders. Last year, 37.6 per cent of new orders were won by Japanese yards, 24 per cent by South Korean yards, and 16 per cent by West European yards.

Until recently, Japanese yards have not thought it worthwhile to commit the substantial research and development funds necessary to develop an indigenous competitor to the European-designed engines, especially in the falling market which engulfed shipping and shipbuilding after the 1973 oil shock and has persisted for 15 years. Last year,

generation of large marine diesels which could provide a significant competitor to European domination in the next decade. A new company, called KK ADD, has been formed by Mitsui, Kawasaki, Hitachi and the Japan Development Bank to take over a research programme begun by a group of shipyards in 1983 under the banner of the High Reliability Marine Propulsion Plant Association.

One of the principal reasons put forward by MAN and Sulzer for the merger of their marine diesel activities is the increased strength the merged company would have in the fight for market-share, which is likely to take place in the 1990s if the Japanese consortium is successful in developing a viable competitor to the existing European designs. A decision from the West German Economics Ministry is expected shortly.

Meanwhile, Wärtsilä of Finland, the other major European producer, has faced problems in maintaining market-share

All three European producers are also casting their eyes towards the shipbuilding nations of eastern Europe, including the Soviet Union, where economic and political liberalisation could have unpredictable consequences. "The low-cost shipyards in Poland, East Germany and elsewhere could emerge as serious competitors in world shipbuilding if they can guarantee quality," says Mike Haigh. "But they could just as easily collapse and disappear under the strains of operating in a market economy."

The future of shipbuilding in eastern Europe is still too uncertain for accurate prophecy, but a merged MAN-Sulzer company would be in a powerful position if shipbuilding demand were to increase dramatically.

MAN has licensees at the Lenin Shipyard, in Poland; Brodogradevna Industrija, in Split, Yugoslavia; and the Bryansk Engineering works, in the Soviet Union; while Sulzer has similar arrangements with the Korbinimpeh Verica works, in the Soviet Union; VEB Dieselmotorenwerk, at Rostock, East Germany; Zaklady Przemyslu Metalowego, in Poznan, Poland; and Jugoturbina, in Karlovac, Yugoslavia.

Kevin Brown

**GENERATING SETS**

**All change in the market**

MANUFACTURERS of generating sets have had to adjust to a rapidly changing world market during the last five years.

In some regions demand has risen, in others it has fallen. Africa is the only continent where demand has increased, particularly like the levels in 1985, with sets now, as they required largely to provide continuous power.

The UK industry, with annual exports worth just over £100m, has been looking, in particular, to the Far East to compensate for the fall off in demand from the Middle East.

Newly-industrialised countries, such as Malaysia, Indonesia and Thailand, which once required generating sets to provide a continuous power source, now need sets more for stand-by, rather than for continuous power, as back-up for their growing commercial and industrial sectors. In principle, many national grids. It is in this region that European manufacturers, some of them now with local offices or agents, face perhaps greatest competition from Japanese producers prepared substan-

tially to undercut competitors just to get a market foothold.

The Japanese have a presence in Europe, but mainly at the smaller, petrol-driven end. There also continues to be a small but significant number of UK producers working on the industry's fringes, many of them assembling sets in a shed or garage, undercutting the reputable manufacturers but

very often failing to meet national or international standards. The well-established European manufacturers are confident about the future, provided standards are maintained and adhered to. The present national standard is BS750 Part 1, generally thought to be among the highest in Europe, and well in line with ISO9000. There has been an concurrent trend towards greater technical sophistication, with demands for a more and more compact and cost-effective

solution, especially in stand-by applications.

The Association of British Generating Set Manufacturers (ABGSM) recently joined forces with its counterparts in France and Italy to form Europagen, to help set common standards as the industry moves towards 1992.

The ABGSM, whose six full members have a combined turnover of £100m, and produce mostly diesel-driven and gas turbine sets in the range 10kVA to 5MW, is hoping to involve the Germans and Spanish by the end of the year.

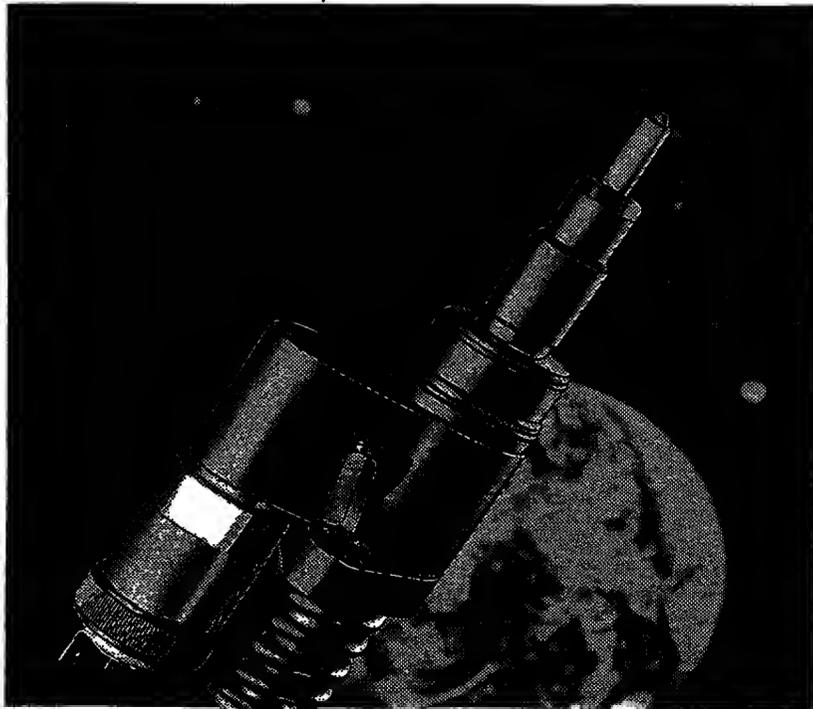
The association has also commissioned a study, jointly with the Department of Trade and Industry, of future market potential in Europe, where 80 per cent of sets are required for stand-by applications. The report, not for publication, looks particularly at public-sector possibilities such as hospitals, telecommunications, energy, forestry and leisure.

Some British companies that make diesel engines for generating sets have sold to French generating-set manufacturers in the past. During winter months, when the electricity supply industry in France is unable to meet peak demand, utilities can require the private sector to supply power back to the grid. That has represented a substantial market for manufacturers such as Renault Industries and SOMO, though it is one that is thought largely to have been satisfied.

The changing pattern of electricity supply in the UK could increase demand for generating sets, particularly at the top end of the range, to provide prime power for localised, or remote applications.

The industry has also been looking closely at the potential for generating-sets in combined heat and power (CHP) applications, thought mostly to be in leisure or large shopping centres, and hotels. A CHP system can double the efficiency of a normal generating set in converting the energy in diesel oil into usable energy, and the mains then become the top-up

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DIESEL ENGINES INDUSTRY 3

John Griffiths considers the accomplishments and challenges in the commercial vehicle and passenger-car sectors

Trucks' recovery is slowing down

AFTER SEVERAL years of buoyant sales and healthy profits, the good times appear to be drawing to an end for the makers of heavy trucks and the diesel engine producers who supply them.

In the US, the world's single largest heavy truck market, the downturn is already well under way - sales fell by over 30 per cent in the third quarter of this year, and some manufacturers are already instituting production cuts and layoffs.

Only in Japan, almost a closed market for western truck and diesel makers (Volvo and Mercedes alone are making over a billion sales) and some developing countries are buoyant conditions to be found.

While western Europe is only belatedly addressing the truck diesel pollution issue - until recently, legislation concerned itself only with the emission of smoke or a "mist" - much more draconian standards are to be applied in 1994 in the US.

At the other end of the scale, the small independent British truck-maker, ERF, has transformed its fortunes in recent years by moving away from being what its chairman, Mr Peter Foden, described as a "fruit salad" truck-maker.



Mack Trucks has been sorting out product rationalisation

world's first "smokeless" truck heavy diesel engine. The unit, which is still under development, will be fully capable of meeting even the draconian 1994 emission standards, according to Mr John Horne, vice president and general manager of Navistar's engine and foundry division.

The engine's key features include a high-pressure electronic fuel-injection system; improved combustion chamber design for better fuel/air mixing; new component designs to minimise lubricating oil penetration into the combustion chamber. But potentially most important is a new type of catalytic converter, to reduce particulate emissions instead of the particulate "trap" - requiring accumulated particulates to be periodically burned off - which much of the industry is developing.

Economy the driving force

VIRTUALLY the only attraction of diesel in high vehicles is its economy. And this can be seen in the sharp contrast between western Europe's car and light commercial vehicles markets.

Last year, 15 per cent of the 15m new cars sold in the region were powered by diesel. Yet in the light commercial vehicle sector, where operating cost rather than dynamic performance is the overwhelming priority, nearly six out of 10 vans, pick-ups and similar vehicles sold were diesel-powered, with market penetration hovering around 70 per cent in Italy, France and Spain.

Even among the successful European-owned industry, which bought up several of the best-known US producers - like Freightliner (bought by Daimler-Benz), White (Volvo) and Mack (Renault) in the early 1980s - concern is being expressed about the likely outcome.

While the larger, fitter corporations, like Daimler-Benz, the world's biggest heavy truck maker, can be expected both to weather the coming storm and continue to produce its big diesels in-house, the mounting pressures make it likely that second-rank truck makers will increasingly source their engines from the specialist engine producers such as Caterpillar, Navistar (formerly International Harvester), and also one of North America's biggest heavy truck makers) and Cummins Engine.

The link between economic factors and the diesel has led to extreme sales volatility throughout the 1980s

are virtually non-existent in north America, where petrol prices remain far below world levels.

More recently, however, environmental issues have come to the fore, with widely varying impacts on individual countries.

In West Germany, where there has been intense concern about all aspects of pollution, uncertainty over the framing and severity of intended European Community legislation on petrol car exhaust emissions led to a temporary surge in diesel car sales.

Market trends have differed sharply in other individual countries. For example, diesel sales are continuing to rise steadily, although from a small base in the UK, where not until this year have exhaust emissions become a matter of widely-debated public concern.

Ironically, the diesel is currently going through a sort of adverse publicity, despite its ability already to meet the emissions standards being introduced over the next three years for petrol cars - at least in terms of the severe pollutants like oxides of nitrogen, which give rise to "acid rain", and the hydrocarbons which help create photochemical smog.

Yet a still-to-be-proved assertion by some environmentalists is that particulate emissions from diesels are carcinogenic, and tougher standards, soon to be applied to reduce such emissions, make it likely that car diesel sales in Western Europe will go into a slight decline over the next couple of years.

In spite of this, major manufacturers and some market analysts remain optimistic about the mid- to long-term prospects for car diesel sales recovering to at least the levels achieved in the mid-1980s, even in the absence of "abnormal" factors such as a repeat of the oil crises which boosted diesel sales so sharply in the past.

A study by Knibb, Gormezano and Partners concludes, for example, that "in spite of the general trend caused by the particulates issue, our forecasts reflect an optimistic view of diesel penetration in the car sector as a whole... based on the belief that, in time, the diesel will regain environmental acceptance in most markets, and that the general tightening up of European emissions will eventually work to the advantage of the diesel."

Forecasts like this presume that such diesels will be able to meet the tighter EC exhaust emission standards. These have yet to be approved in their final form, but are expected to stop short of requiring the fitting of particulate "traps", a complex and costly system for capturing the particulates and burning them en masse at regular intervals - requiring temperatures higher than those ordinarily reached within the vehicle's exhaust system.

Another important economic factor impinging on the diesel's future is the single EC market planned for post-1992. Currently, diesel fuel prices vary enormously from country to country - from less than half the price of petrol in Italy, to only slightly cheaper in the UK.

The EC's intention to harmonise fuel prices, through a regime of similar value added and excise taxes, may also significantly affect the pattern of demand. Keeping road transport costs as low as possible within the single market is expected to be a priority - hence, diesel fuel prices can be expected to harmonise at a relatively low level.

The downside, however, is that no government is likely to tolerate the reduced fuel tax take that would arise from a population explosion of diesel cars, which are at least 25 per cent more economical than their petrol-powered counterparts.

The likelihood, therefore, Knibb, Gormezano suggests, is that they would seek to compensate with increases in other areas, such as annual licensing fees. The overall picture, however, may yet be improved by further technological development of the diesel.

Electronic engine management, variable-flow turbocharging and more sophisticated fuel injection and combustion chamber systems all hold out the promise of substantial improvements in pollution control, fuel economy and on-road performance - the last currently accepted as being the single biggest disincentive for the majority of drivers.

Performance increases of 10 per cent on current diesel models and fuel consumption improvements of at least 5 per cent are expected to be achieved with relative ease, although they may add up to 20 per cent on current unit costs. The performance deficit is in some cases already being sharply reduced.

At the end of September, for example, Citroën, part of the Peugeot Group which is the world's single largest diesel engine maker, unveiled a new diesel for its XM executive car which, in turbocharged form, propels the XM to a top speed of 190mph and provides acceleration from standstill to 50mph in around 12 seconds.

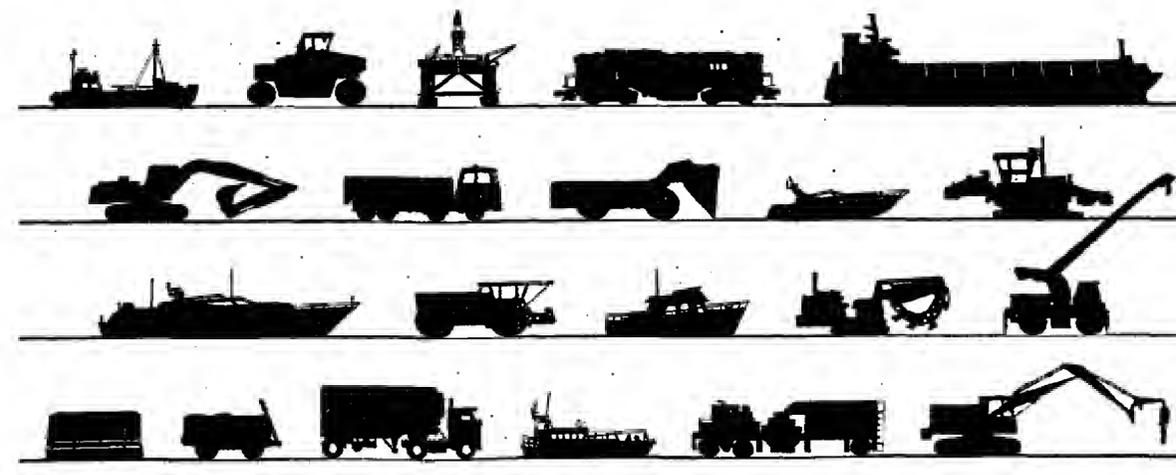
Citroën claims a diesel engine "world first" for the 2-litre unit, in its having three valves per cylinder, not two. The extra valve is claimed to increase both power and torque while reducing exhaust emission levels.

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**DIESEL ENGINES INDUSTRY 4**

# A quiet time on the land

THE MAIN off-highway sectors, agriculture and construction equipment, both experienced disastrous slumps at the start of the 1980s, which led to significant mergers and regroupings in the industry. However, their subsequent experience has been very different. Booming levels of construction activity in the developed world have made the late 1980s a buoyant period for this sector, which takes almost 750,000 diesels a year.

In the agricultural sector, the slump seems likely to continue. After mature years of decline, volumes are flat, with free-world demand for tractors (excluding compacts) stuck around the 600,000-unit level for the last three years. Despite plant closures and mergers, most notably that of Case and IH, agricultural equipment markets remain highly competitive, and prospects look bleak, particularly for the smaller companies. Engine supply for the major manufacturers is almost all captive - both Deere and Ford New Holland produce their own engines; Case IH uses the IH engines, plus the Case/Cummins ranges; MF its Perkins subsidiary's unit in all tractors; and Fiat uses engines from Iveco. Its commercial vehicle group.

Recently, the industry has been in a quiet period, in terms of major engine developments, but evolutionary progress has continued to be made in engine performance. For example, Case IH, in West Germany, recently ran one of its latest combines powered by an NCE (C Series) engine alongside a three-year-old unit, and found that the new machine required a fuel consumption 6 litres per hour lower than the older one. The main change on the horizon is the expected tightening of emissions regulations. The shape and timing of these developments is unclear, and will depend on how severe the final regulations are in the vehicle sector. However, the major manufacturers are expected to achieve the new goals without major problems. Of the five majors, MF and Case IH are likely to have the easiest passage, because they already have access to the latest generation of vehicle-based engines - MF, through Perkins Phaser/1000 series, and Case IH through the Case/Cummins NCE (B and C Series) engines.

For the second-tier manufacturers, new legislation could be the straw that breaks several camels' backs. Companies such as Fendt and Holder, in West Germany, have hung on through the 1980s, relying on their strength in niched domestic markets; but, with outside

**MICHAEL HAIGH considers the supply of engines in the agricultural and construction sectors, with their contrasting outlooks**

engine suppliers who are not in the forefront of vehicle environmental developments, they could well disappear before the 1990s are far advanced.

Renault may stay in business, simply because the overall group is controlled by the French Government, which will not want to see the country's only significant manufacturer go. On the other hand, problems elsewhere in this predominantly automotive group may push the Government into allowing the closure or disposal of this fringe activity.

Deutz is much more deeply committed to the agricultural sector; but, even in combination with Mercedes-Benz, its prospects are not good. Also, declining volumes or complete closure at Fendt or Renault would trouble the company, as they are the only significant customers for its water-cooled engine subsidiary, MWM.

In terms of new products, the major recent event has been the new 7100 and 5100 tractor ranges from Case IH. These were launched in North America in 1988, and are due on the European markets in the first half of 1990. All the C Series engines for the larger (7100) tractors are sourced from the Case/Cummins joint-venture facility, at Rocky Mount in the US. Those for the 5100s come from Neuss, in West Germany, which means that the B Series is now being

produced in three locations - Rocky Mount, Darlington and Neuss.

One interesting feature separates the agricultural sector from both the other off-highway and the on-highway sectors - its relative immunity to

Japanese penetration. Although the Japanese dominated the under-30hp mini-tractors and other small equipment, they have made virtually no progress with larger machines. This is largely attributable to the problems of establishing effective product distribution and servicing in the ultra-conservative farming sector.

In the construction equipment sector, large areas are dominated by OEMs (original equipment manufacturers) and captive engine supply. Thus Caterpillar and Komatsu, the two giants of the industry, make their own engines. Nevertheless, there are opportunities for outside suppliers, even with these leaders. In recent years, Perkins has added Caterpillar backhoe loaders to its long-established supply of engines for Cat's FLTs, despite the launch of new smaller Cat engines. Komatsu has also selected Perkins to power the excavators it builds at Caterpillar's old plant, at Birtley in the UK.

Further opportunities for supply to Japanese plants in Europe may occur, as Komatsu has recently taken a major stake in Hainomag, of West Germany, and Furukawa has absorbed parts of Dresser's European operations in Germany and France. These moves follow the earlier tie-up between Hitachi and Fiat,

which has seen the establishment of a new plant to build Japanese-design excavators in Milan.

The smaller end of the market has seen something of a swing from air-to-water-cooled units, particularly as mini-excavators, largely developed by the Japanese, and skid-steer loaders have at last gained acceptance as useful tools for smaller projects and confined sites. Generally, the Japanese engines have come from the agricultural sector.

This swing has been paralleled by developments in Europe, most notably the launch of Lister-Petrol's new Alpha range and of Deutz's 1011 series, both of which went into production in 1988. The Alpha series consists of 2- to 4-cylinder engines in both water and air-cooled versions, which have gained widespread acceptance with West German OEMs.

Deutz's new engines feature oil-cooling of the cylinders and air-cooling of the heads. This year's Bauma exhibition featured several west German OEMs displaying equipment fitted with the new 1011. Such new engines represent a move away from single-cylinder air-cooled units with their rough, heavy and noisy image.

Noise remains one of the main concerns of the industry, particularly in Europe as EC regulations have tightened. Here, engine manufacturers face a difficult decision as to how far to go with the engine, which is the principal noise source in most types of equipment. Manufacturers of basic generating sets will often expect the engine manufacturer to bear the full burden of noise protection. On the other hand, OEMs producing equipment such as compressors often have a design which encapsulates the engine quite well, thus needing far less support in this area from the engine designer.

The noise issue is generating some interesting developments. For example, O&K, of West Germany, has launched a new range of excavators featuring FMS (Pump Management System), which allows the machine to be switched into a low revolutions/low noise mode. These excavators display the "Blue Angel of the Environment" badge, which permits them to operate in urban areas of Germany even at night.



The agricultural sector is experiencing a fallow period

GOOD NEWS has been hard to come by in Brazil for a long time. The diesel engine industry, though, has been living through a golden age of rapid growth and impressive profits.

"The Brazilian market is big and growing bigger, and is close to world class competitiveness," says Mr Jack Andrews, president of Cummins' Brazilian operation.

The leading American and European engine companies have manufacturing operations in Brazil, though Japanese companies are conspicuous by their absence.

Those companies with factories in Brazil have price, technology and quality levels close to those of their parent companies. But profits tend to be higher.

Cummins has reported 25 per cent real sales growth over the past year, and has a handsome 7 per cent profit margin - roughly twice its US parent company's profit levels. The company has invested \$100m over the past five years - equivalent to one-tenth of its world wide capital spending. High profitability meant the expansion could be financed mainly out of cashflow.

A substantial export drive, direct and indirect government subsidies and a highly efficient local components sector account for Brazil's success. High interest rates have bolstered corporate earnings, because the profitable private sector is not investor on the lucrative money market, now paying 6 per cent real interest per month.

Between 1985 and 1989, Brazilian diesel engine production increased by 47 per cent, to 282,000 units, worth \$2.03bn. Sales and output are projected to rise further 50 per cent by 1994. Direct and indirect exports currently account for about 30-50 per cent of total output.

"Both suppliers and the diesel engine industry had to export or stagnate in the early and mid-1980s, when the local market dried up," said Mr Andrews. "Although exporting hurt, it made us become competitive to break into the world

market. Now we're reaping the benefits."

A strong presence in the local and export markets reduces business risks in the notoriously volatile Brazilian market. Inflation, bursts of rapid growth followed by stag-

US suppliers." But the future looks less certain. A new president will take office in March, following elections on December 17. An overvalued currency and a gradual reduction in government industrial and export subsidies

**COUNTRY PROFILE: BRAZIL**

**The country's diesel industry has been living through a golden age, says JOHN BARHAM. But can it last? The economic outlook is always cloudy, and executives avoid commenting on their industry's outlook**

are eroding Brazil's much-vaunted export competitiveness. After a decade of growth and investment, the industry expects a pause in expansion next year. Furthermore, the prospect of a recession in export markets and further jobs in the volatile domestic market are adding to the uncertainty.

Electricity prices, a major input in the component industry, are set to rise. Worse, there is a risk that supplies could be curtailed by the government's industrialisation drive. The government has held electricity prices down, in the vain hope of controlling inflation, handing industrial consumers an important cost advantage. Better, an important government export subsidy, to be phased out by the end of the year.

The Deflex scheme offered exporters cash rebates and duty-free imports, in exchange for meeting pre-established export targets. However, exporters say the end of the subsidies is less of a problem than the overvalued currency. Brazil's new cruzado is reckoned to be 25-30 per cent overvalued, which has made exports too expensive. Thus companies think exports could be stabilising and local sales rising, pushing annual sales over \$1bn by 1992.

Mercedes Benz and Ford are the largest diesel engine manufacturers, with annual produc-

tion of 70,000 units each, equivalent to about half of the total market. Mercedes has begun a \$300m investment programme to modernise its engine and truck models, with an improved medium-duty engine hitting the market this year. The company plans increased engine exports to the US to power Freightliner trucks.

At present, Ford produces 70,000 engines a year, but is increasing production capacity to 100,000 units to meet rising demand for trucks and agricultural tractors produced by its Ford New Holland (FNEB) division. The company exports engines indirectly through its export of the Cargo truck. But exports are expected to start in 1990, because the overvalued currency has raised costs in dollar terms.

Caterpillar is the leading independent producer, with annual sales of over \$500m. It dominates the medium-duty segment, but its products are considered outdated. Caterpillar plans to invest \$500m in Brazil, to update its product lines, modernise and consolidate manufacturing.

The Japanese have avoided Brazil so far, and their policy is unlikely to change. Brazilian officials have tried to woo Japanese investors, but have yet to overcome their reservations about chronic instability, investment controls and 40 per cent monthly inflation. Toyota is the only Japanese vehicle manufacturer in Brazil, where it makes trucks and jeeps.

Since the outlook in Brazil is always cloudy at best, executives avoid commenting on their industry's outlook. However, they accept the need to bring electricity prices, interest rates and subsidies down to earth. But they insist that the next government - which could be led by a militantly left-wing or a centre-right president - must devalue the currency to avoid discouraging exports.

"We have competitive costs," says Mr Andrews. "All we need, to remain competitive, is a 15 per cent devaluation, or the industry will stagnate."

**Producer profiles appear below and on pages 5 and 6**

## Peugeot becomes the bellwether of change

Mr Jean-Yves Helmer, the quality director of Peugeot's automobile division, is confident about the prospects for the French car group's diesel engine sales, where it is the world's largest supplier.

Looking younger than his 43 years, this product of France's northern French town of Lille, Tremery and Douvrin. That was a 3.4 per cent improvement in its 1987 market share, leaving its nearest competitor, VAG, far behind, with 15.3 per cent, followed by Fiat with 13.2 per cent.

This makes Peugeot - which also sells diesels for cars made by other producers, like Ford - the most revealing bellwether of broader changes in the diesel market.

Mr Helmer, formerly director of Peugeot's huge car assembly plant at Poissy, took his present job a year ago, at a hard time in this notoriously volatile market. Sales were beginning to fall sharply in West Germany, PSA - under the twin influence of adverse tax rules and environmental fears - ill-founded, believes Mr Helmer - about the damage to human health caused by diesel pollution.

These problems still exist, but a big new opportunity could, at the same time, be opened up by the European Community's decision to adopt tough EC-style rules on car exhaust emissions. Meanwhile, a European Commission proposal to harmonise rates of diesel fuel tax could considerably ease Peugeot's access to what is now a deeply fragmented European market for diesel engines.

The cost of equipping petrol-driven cars, to comply with the new EC exhaust pollution rules, will considerably reduce the price advantage they now have over more expensive diesel cars, argues Mr Helmer. Most Peugeot engines already comply with EC rules on gas and particulates emissions, and so will not need modification. This means the average 15 per cent price gap, which now separates diesel and petrol cars, could fall as low as 5 per cent, estimates Mr Helmer.

The Commission proposal on diesel fuel - yet to be adopted by member states - would fix taxes within a uniform band of Ecu195-205 per 1,000 litres. This is a lot higher than Peugeot would like, and would drive up current diesel fuel

prices in France, Belgium and the Netherlands, managed by the 12, believes Mr Helmer.

Yet it will create conditions elsewhere, and, most important, help the market to become more stable and less fragmented. Market stability matters crucially, because diesel cars are costlier and take longer to develop than petrol engines.

Peugeot has always found that the diesel engine market is more vulnerable than petrol to political forces outside its control, something which occupies much of Mr Helmer's time in the form of visits to Brussels to try to explain to the Commission some of the advantages and special problems of diesel. This volatility can be an advantage, as was the case with the 1971 price shock, when consumers flocked to buy diesel cars attracted by the fact that they use on average 25 per cent less fuel and last 50 per cent longer than petrol-driven cars.

The big problem comes from different public perceptions about engine performance and pollution. "From the point of view of gas emissions, diesels produce the same as petrol cars fitted with a regulated catalyst. And particulates are not a problem in modern engines," says Mr Helmer.

He cites as an example the new Citroen XM Turbo Diesel - the first diesel Peugeot belongs to the same group, PSA - capable of nearly 200km/h and the world's first diesel with three valves per cylinder.

It is no surprise that the pragmatic French are far more open to diesel's advantages than many of their European neighbours. Diesel cars' share of the total French car market nearly doubled over the past four years, from 15.7 per cent in 1986 to an expected 22.5 per cent this year, according to the French car makers' association, the Chambre Syndicale des Constructeurs d'Automobiles. That is bettered only by Belgium, where diesels take 31 per cent of the market.

In environmentally-conscious West Germany, by contrast, diesel cars' market share has crashed from 27.1 per cent to 10.3 per cent since 1988 - with the biggest fall in the past two years - while the figure in Britain has climbed slowly from a tiny 4.1 per cent to 5.5 per cent.

This volatility and fragmentation might help to explain why this is one of the very few areas in the automotive market where the challenge from Japanese competition is negligible. Mr Helmer is no doubt, however, that Japanese corporate planners will be watching the impact of the new EC pollution rules and the forthcoming fuel tax changes with more than usual care.

William Dawkins

## Buy-out at VM Motori will 'liberate energy'

AFTER 18 years, in public ownership, as a subsidiary of Fiat, VM Motori's sub-holding, of Italy's IRP state holding corporation, VM Motori is returning to the private sector.

A management buy-out, organised by Milan merchant bank Euromobiliare, is expected to be completed by the end of the year.

Eight senior executives, led by chairman and managing director Mario Brighigna, will together have a stake of between 10 and 15 per cent in the company.

Considered a fair performer under IRP, Euromobiliare believes that VM Motori will do better when released from state-sector constraints and bureaucracy. "Belonging to the private sector will be a significant incentive and will liberate untapped energy within the company," says Mr Brighigna.

He joined the company as general manager in 1967 - 20 years after its foundation. Under his leadership, VM Motori diversified from industrial diesels into the automotive field. The company launched its IR engine in 1976, achieving a world first with the use of turbo-diesels in cars.

The IR series has allowed VM Motori to win important customers. The 6-cylinder 3925ET-R is fitted in Alfa Romeo's Alfa 33 model. Larger engines power the Alfa 75 and the more recent Alfa 164. Austin Rover chose the Italian company as supplier for its SD-1 saloon in 1981. But use of the IR series in 4-wheel drive vehicles has been even wider. Engines built by VM Motori power Range Rovers, Toyota Land Cruisers, AMC's Jeep Wrangler, GMC's Jimmy S15 Sierra and the Uaz 469.

With nearly 60 per cent of production being fitted to cars and 4-wheel drive vehicles, the automobile sector is of primary importance. And foreign sales are also crucial; direct exports account for 30 per cent of production and a further 30 per cent goes abroad indirectly. Mr Brighigna says that having no captive customers for engines provides a continuous stimulus for seeking improvements in cost and performance.

Modularity is one of the features of VM Motori's engines, which have common modules of cylinders, pistons, connecting rods and heads. The IR series offers engines having from three- to 6-cylinder modules, giving commonality of about 70 per cent. This allows greater quality consistency in production, and easier maintenance and reduced stocks of spares for the user.

About 3 per cent of turnover is spent on research and development, to help the company stay with, or ahead of, competitors. Emission- and noise-reduction, and lower fuel consumption are priorities.

But, as visitors to the Paris air show learnt this summer, VM Motori's R&D group has been exploring the wider frontiers of aircraft propulsion. The VM-Avio project has given birth to a series of three turbo-charged compression ignition engines, suitable for powering light aircraft. The 4, 6 and 8-cylinder TPJ 1300HF series provide a power range from 210 to 430 horsepower.

Using Jet A-1 and JP-4 fuels, VM Motori's experimental diesel aero engines give a reduction of between 40 and 80 per cent on specific fuel consumption, compared with equivalent petrol types. In addition to offering substantial improvements in range and payload, the diesel aero engines have the advantage of significantly longer time between overhaul.

Mr Brighigna says that the untapped energy within the company's aero product offers a feasible alternative to existing engines. However, until this project gets airborne commercially, VM Motori keeps down to earth with its automotive products and the diesel motors it sells to marine and industrial users.

The company's air and water-cooled engines are used in agricultural machinery and tractors, earthmoving equipment, air compressors, generators and pumping sets, and for marine propulsion. Claiming European leadership in the diesel sector, VM Motori says that its V130 500hp engine, used in generating and pumping sets and for large industrial and marine propulsion, is the world's most powerful air-cooled diesel.

Such technological performance is starting to be matched by financial results. Last year VM Motori recorded a profit of 1.25bn (1.2m) on 1,280bn sales, its third successive profitable year. In 1988, the company's 1,36bn losses were equivalent to about 13 per cent of turnover. Getting rid of loss-making subsidiaries Ducati Meccanica and Isotta Fraschini was fundamental to the turnaround.

Reflecting healthy demand for VM Motori's products in an increasingly competitive market, the workforce at the company's Cento factory mid-way between Bologna and Ferrara has increased.

"This year has gone well, and results are on budget," says Mr Brighigna. With a senior debt of 1,30bn and subordinated debt of 1,28bn entering the balance sheet after the MBO, it is important that profits and cash flow should keep on track. Euromobiliare has carefully vetted VM Motori's five-year plans and finds them extremely interesting. That the future seems bright provides reason to expect stock-market flotation between 1992 and 1994.

David Lane

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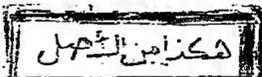
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FINANCIAL TIMES



**DIESEL ENGINES INDUSTRY 5**

PERKINS has made impressive progress, rebuilding its volume base

**Advancement in difficult markets**

THE 1980s has been a dramatic decade for the leading manufacturers of diesel engines.

In the early years, they experienced a massive slump in all market sectors, creating huge amounts of excess capacity, much of which has persisted ever since.

Looking back, one of the most surprising things is that Perkins Engines, long a world leader in diesel engines, still exists as a distinct entity. When the slump hit almost half its business was in the agricultural sector, dominated by supplies to its parent company Massey Ferguson (now Vauxley Corporation).

The collapse of MF's worldwide agricultural markets, coupled with the slump in the construction sector into which it had moved, very heavily brought the group to the brink of collapse. It survived only after one of the most changing series of multi-bank rescues ever seen.

Perkins remained within MF, but its engine output slumped from a peak of 269,000 in 1976

to only 130,000 in 1983; factories were closed in the US and West Germany, the workforce was halved, and new investment halted.

Since this low point, Perkins has managed to modernise and expand its product range, invest in advanced manufacturing facilities (including fully automated engine test cells with AGVs to move engines)

**The revamping of the product range has been achieved through a combination of measures**

and make impressive progress with the rebuilding of its volume base.

Last year, its own facilities produced almost 190,000 engines and worldwide sales from the UK and its 15 overseas associates/licenses approached 450,000. Revenue was almost \$700m, and operating profit topped \$65m. Tony Gilroy, who joined Perkins in January as managing director,

expects final UK volumes in 1989 to show a 50 per cent increase from 1986 levels.

The revamping of the product range has been achieved through a combination of in-house development, acquisitions and joint ventures. Perkins traditional 50-200-hp product range now features advanced new 4- and 6-cylinder (four/six litre) engines - Phaser/1000 Series - plus the 2-litre Prime engine, which was originally developed for car and light van use with Rover and has now been adapted for industrial and construction markets as the 500 Series.

The bottom end of the power range has been extended through a joint venture with ISM, of Japan. Perkins now uses ISM's 2-, 3- and 4-cylinder small water-cooled units from 5 to 45hp. At the top end, powers have been extended to 1,500hp through the acquisition of Vickers' Rolls-Royce diesel division with its 12.2 litre engines for heavy truck and industrial use and its larger V8s and V12s.

With these larger engines has come a major extension of Perkins' business and know-how in the military sector. The company is now the British Army's power unit supplier for tanks, tank transporters and the Drops front-line ammunition delivery vehicles. Perkins has also acquired the Gardner company with its low-volume, but highly

**Strength elsewhere means less than 25 per cent of business will be in the agricultural sector**

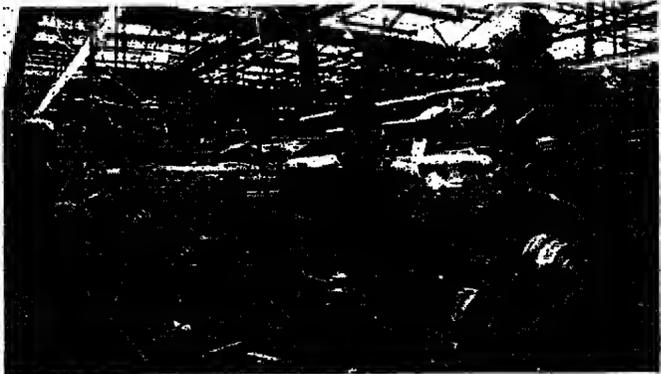
regarded, long-life, premium bus, truck and marine engines.

Restructuring is also under way in one of the company's traditional key markets - north America. Under a joint venture with DDC (Detroit Diesel Corporation, formerly the diesel engine operations of GM's DDA), Perkins is merging its US distribution into DDC's. This gives the company access to full distributor coverage in

north America, lack of which has always limited its aspirations there. It may even provide the scope for Perkins/DDC to tackle the north American truck sector on a carefully niched basis.

The recovery of Perkins' core volume base in its important west European markets has been built on a number of successes with major original equipment manufacturers (OEMs), notably JCB and Caterpillar backhoe loaders and Rover cars/light vans in the UK.

More recently, progress has been made in the two most difficult major markets in the world - Japan and West Germany. Komatsu is fitting 200 Series engines in its UK-built excavators, and Perkins' Japanese partner ISM is now taking the same range for use in its tractors in the Japanese domestic market. In West Germany, Perkins has recently won an order to supply 1000 Series engines for a new fork-lift truck range from Linde, Europe's largest FLT manufacturer.



Assembling tractor engines at the Perkins factory, in Peterborough

The extent of the progress made since the black days is shown by the fact that strong growth in the construction, industrial and vehicle sectors means that less than 25 per cent of its business will be in the agricultural sector this year.

Mr Gilroy attributes much of this success to the company's reorganisation into six business units: Peterborough products and Shrewsbury products and

defence sales; Compact engines (5-45 hp); Gardner, Power Sales and Service - for distributor sales and the after-market; and Perkins Technology, which provides engineering services, both internally and to more than 150 outside companies.

He is convinced that this structure generates real accountability, and focuses each area's attention on providing a total service to customers with fast reaction to

changing demands - thus meeting users' growing concern with overall operating costs, rather than simply initial selling price.

This strength, he believes, will keep Perkins ahead of the competition and allow it to win further significant new business accounts in all sectors, including the rapidly reshaping European vehicle markets.

Michael Haigh

LOMBARDINI has established a presence outside Italy, and has recently launched ...

**New runners in the water-cooled race**

LOMBARDINI is Italy's largest producer of small diesel engines. At its Reggio Emilia plants, the company celebrated the production of its 3 millionth engine at the end of 1988, and has therefore built its unit since 1959.

Manufacturing principally single and multi-cylinder engines of air-cooled design below 50kW, it produced over 131,000 units in 1988. Although output in 1989 will be of the same order, the trend to multi-cylinder engines should ensure turnover gains of between 10 and 15 per cent.

The company's tradition has been the Italian domestic engine market for specialist agricultural equipment in 2- and 4-wheel format. Between 65 and 80 per cent of its diesels are sold to the agricultural equipment sector.

In the last 10 years, however, its sales for generator sets, mini cars and off-highway equipment have grown. At the same time, it has established a significant presence in other European and north American country markets.

One diesel engine in six powers a generator, set, with almost the same volume des-

tined for construction equipment. Together, mini-cars and industrial applications account for the bulk of other sales.

According to PRS Consulting Group, the engine research consultants, 110,000 diesels were produced at Reggio Emilia. The remainder were built by the Italian subsidiary (Sizani Motor Spa) and Hispanomotor, of Spain - Lombardini acquired full control of Hispanomotor this year.

Thirty-five per cent of output is exported directly, a third of which is sold outside western Europe, mainly to north America. Lombardini also markets gasoline engines produced by its Internotor subsidiary; current output is about 90,000 units per annum.

FRS estimates that production of non-automotive diesel engines below 100hp in western Europe has decreased by 12 per cent since 1984, to some

2.5m units in 1988. Lombardini's output has declined mainly because of the depressed nature of its domestic market for small agricultural and lawn/garden equipment. Lower rates of equipment replacement and growing gasoline penetration in some sectors have affected diesel sales.

Lombardini competes with other major European producers, Hatz and EMD, of West Germany; Lister-Peter, of the UK; and its rival in the domestic market, Ruggerini.

In the 1980s, competition has intensified through a growing Japanese presence in the west European market. The strategy of Japanese companies has been to compete principally in finished equipment, rather than loose engines. However, penetration, particularly in small-engine markets, has been growing. In recent years, penetration has risen rapidly, to the

extent that the Japanese now claim 15 per cent of small diesel engine markets.

While the Japanese preference for water-cooled engines has not changed, Lombardini in particular had the foresight to undertake product development programmes for such units themselves. In late 1988,

**The company believes both air- and water-cooled diesel engines are required, to compete in a wide range of sectors**

Lombardini introduced two new families of water-cooled engines: FOCs (fully overhead control system) and CHD.

These engines are of indirect injection design, and feature exclusive and innovative mechanical features. The FOCs engines include a new design concept with fuel injection equipment and valve-timing

incorporated into the cylinder-head block. It is the first time that small engines have employed a unit injection system, which was developed by Lombardini themselves.

The CHD 6-cylinder engine is the first European-produced diesel engine combining water-cooling and such small

competes with the emerging Japanese presence in Europe. By 1990, 10 per cent of Lombardini's engine output will be water-cooled.

Lombardini is also the first European engine manufacturer to produce a multi-cylinder water-cooled engine range for such a small output range. Other recent developments include the 6LD 455 model, purpose-built to meet noise legislation applicable to generator-set equipment.

In western Europe, the market for small engines is mature and depends for growth on increasing gross national product. In oil-producing countries, demand for small powered equipment declined sharply in the early 1980s, and has not recovered. In other, developing, countries there has been an increase of economic aid for small-scale mechanisation, which has improved small

engine sales.

Engine usage in western Europe is well established, with little or no substitution occurring between competing power sources. Within the small diesel engine sector, demand for higher-powered units is continuing. This is driven by a move away from "walk behind" to "ride on" equipment, and in the construction equipment sector a requirement exists for more power take-offs.

Engine developments in recent years have concentrated on improving noise emissions, in order to meet EC legislation. Japanese manufacturers have capitalised on this opportunity. FRS estimates that Japanese penetration of engines below 50hp has more than doubled, from 7 per cent in 1984 to 15 per cent currently. Such technical advantage, combined with competitive pricing, has

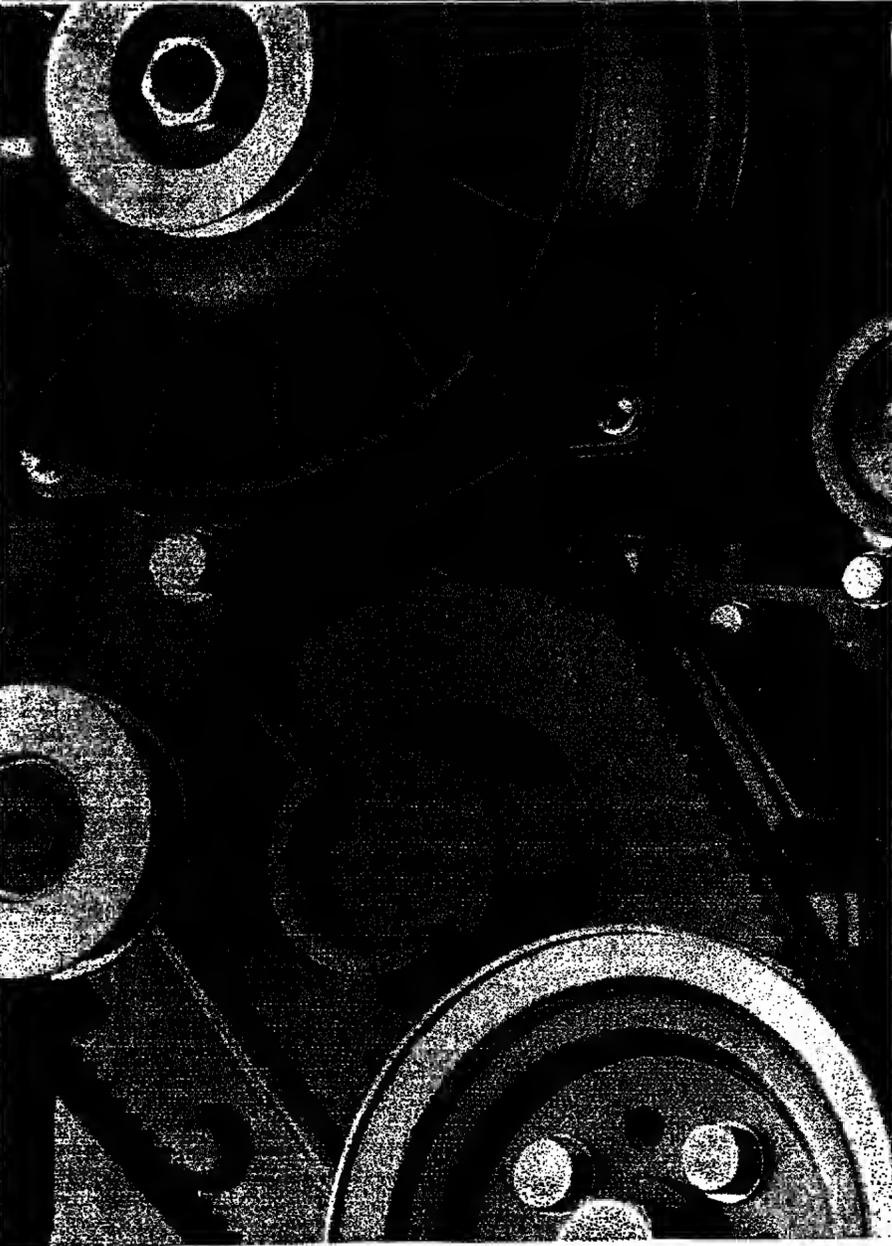
allowed the Japanese to move out from niche areas of the market.

The European industry underestimated the changing demands of the end-user, and the European Community itself. Lister-Peter, of the UK, and Deutz, of France, have responded to the challenge. However, it is Lombardini that has sought to match the Japanese in sophistication, with innovative solutions.

The Japanese have achieved significant penetration, particularly in Switzerland, Austria, the UK and West Germany. Lombardini's backyard has been protected from Japanese competition until recently by trade barriers, while the Japanese have concentrated on off-highway, agricultural transportation, generator sets and marine sectors.

Lombardini is well placed to meet further competition from the Japanese and others. While it must defend its domestic position, the company also aims to improve sales in other parts of western Europe. A fully-owned subsidiary will begin operation shortly in the UK.

David Smith-Thiley



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## DIESEL ENGINES INDUSTRY 6

KHD

## A tough road to recovery

A COMPANY in the West German engineering sector could certainly imagine for itself a better scenario than a 125th anniversary year in which it is just returning to the black, at a time when business in the industry is booming as a result of surging home and foreign demand.

But Klöckner-Humboldt-Deutz, whose activities cover tractors and industrial plant, as well as diesel engines, is lucky to be even in that position.

It has been to the corporate abyss, peered fearfully in, and managed to draw back. In 1987, it turned in a net loss of DM265m, having made a DM25m profit the year before, and one of DM157m in 1988. Last year, however, it had narrowed the loss to DM98m, and is now looking forward to a small profit again in 1989.

The road to recovery has been tough. Jobs have been slashed and now total 18,400, compared with nearly 30,000 in 1985; capacity has been cut; and top management has been given a vigorous shakeout.

Cologne-based KHD's biggest division is engines and turbines, accounting for 53 per cent of last year's group sales of DM4.5bn. The problems, however, lay more in the other areas: tractors and agricultural

machinery (36 per cent of sales in 1988) and industrial plant (11 per cent). It is in these two divisions that the job reductions were severest, in percentage terms.

KHD's history goes back to the earliest days of the modern engine. The group originated with the engine factory, the world's first, founded in 1864 by Nicolaus August Otto and

**The group is the biggest producer of air-cooled diesels in the world, having produced 4m since it began regular production in 1944. It has turned out more than 5m air- and water-cooled diesel engines, as well as gas engines, since its formation in the last century**

Eugen Langen. Three years later, they presented their small atmospheric gas engine, at the World Exhibition, in Paris. This was the forerunner of the Otto (internal combustion) engine.

In 1876, Otto finished work on the four-stroke internal combustion engine. In the proud words of KHD's latest annual report, "the motorisation of the world had begun".

Today, the group is the biggest producer of air-cooled diesels in the world, having produced 4m since it began regular production of these in

1944. Altogether, it has turned out more than 5m air- and water-cooled diesel engines, as well as gas engines, since its formation in the last century. It has also kept up its innovative thrust, latest developments including engines which are both fuel-efficient and environmentally-friendly.

In the first six months of this year, turnover of the division

was 5 per cent higher, with the new-order inflow up by nearly 20 per cent. With the German construction industry, to which it is an important supplier, now experiencing a surge of activity, the group's Deutz Motor division has seen a sharp rise in business. Among its offerings is a new series of air/oil-cooled engines called the B/F/L 1011. This has a low-exhaust emission level, makes less noise, and needs less maintenance than previous engines.

Another recent breakthrough is the DFFS particulate-filter system, which virtu-

ally eliminates soot: the device can be retrofitted or installed during the manufacture of diesel-using transport or mechanical equipment.

One aspect of the engine business now being stressed more heavily is service. KHD has invested DM15m in a new service centre in Cologne, with parts for all products made by Deutz and Deutz MWM, which produces large and medium-sized engines for ships, electric power plants, and public buildings. Deutz Service now has a turnover of DM640m a year, with DM1bn seen as attainable.

KHD, which suffered a heavy cash drain in its crisis period and has paid no dividend since 1986, obviously still has a long way to go in its climb back to prosperity. The performance of the engine division will obviously be crucial.

In 1989, the group expects Deutz Motor to raise its turnover in air-cooled engines to more than DM1.5bn from DM1.4bn. KHD is certainly putting great hopes in the well-received 1011 series, which ranges between 14 and 72hp. By 1992, it expects to be making 60,000 of these a year - around double the level planned for 1990.

Andrew Fisher

YANMAR

## Troubled by the rising yen

ALTHOUGH the name is not widely known outside the industry, the Yanmar Diesel Engine Company is the world's largest producer of small diesel engines. It builds 350,000 units a year.

Founded by Magoluchi Yamaoka, in 1912, to produce kerosene-powered rice harvesters, the company has grown to be one of the largest private family-owned companies in Japan, with a turnover in 1988 of \$3.5bn.

In 1982, the founder was succeeded by his son Yasuhito, who died the following year and was replaced by his brother Tadao Yamaoka, the current president.

Yanmar produced its first small horizontal water-cooled diesel engine in 1933, with an output of 5hp. There was immediately a huge demand in Japan for this engine for agricultural equipment, and a new factory was built at Amagasaki in 1936.

Two years later, the company began to export engines to the Philippines and India, and a second plant was established in Nagahama in 1942.

Complete renovation was needed after the war, and Yanmar started mass production of marine engines, which were to dominate the domestic market and eventually achieve a lead-

ing market position in western Europe and elsewhere.

From its origins as an engine manufacturer, Yanmar has spread into a range of components and powered equipment, including fibre-reinforced plastic boats, agricultural tractors, tillers and harvesters, excavators, wheel-loaders, fuel-injection equipment, transmissions and machine tools. Its engine range stretches from 3 to 5,000hp, and includes diesel, gasoline, natural gas and gas turbine units. It now has six production sites in Japan, and also manufactures engines in Brazil, Indonesia and Thailand.

Yanmar made its reputation in the production of small lightweight diesel engines for the agricultural, construction and marine markets. While the European tradition was to build air-cooled units for power outputs of below 10hp, Yanmar, together with other Japanese manufacturers, preferred water-cooling for reasons of efficiency and noise. However, in 1984, it moved to compete across the board by introducing what was claimed to be the world's lightest air-cooled diesel, particularly for the US and European markets.

In 1987, it broke new ground in introducing a series of diesel outboard motors. This is the 27hp model.

In many respects, the diesel outboard has significant advantages over comparable gasoline units. It uses less than half the quantity of fuel and has good vibration and noise characteristics. Although down on maximum speed, the diesel has much more torque than a gasoline engine of similar power, and thus outperforms it in full-load conditions.

Over the past few years, Yanmar has been hit by the appreciation of the yen. From its peak in 1985, the currency rose from ¥240 to the dollar to just ¥120 in two years. This is equivalent to doubling the cost to the US customer, and has resulted in considerable problems.

Like other Japanese companies, Yanmar has redoubled its efforts to reduce manufacturing costs through investment in more advanced processes, and also to redesign its products to make them cheaper to produce. Considerable progress has been made to date, but more time is needed to complete the adjustment.

Yanmar sees the single market in the EC from 1992 as an opportunity for its products in Europe. The market is expected to offer stable growth in demand for high-quality engines with low noise and emissions, which Yanmar is confident it can provide. In order to do so, it has set up a European headquarters in Amsterdam, initially to deal with parts distribution and customer service.

In addition, the company is planning to complete the manufacturing-marketing cycle by commencing engine production in western Europe, at a site yet to be chosen. This will include both air- and water-cooled units up to 100hp for agriculture, construction and marine applications.

Yanmar already has a joint venture - Asamama Yanmar - with a Swiss company, St. Dizier, in France. This produces mini-construction equipment, powered by engines imported from Japan. Yanmar's marketing strategy is to penetrate the finished-equipment market with the new L-series air-cooled diesel. Water-cooled diesels will be modified to meet European industrial requirements.

In the US, Yanmar expects to see significant growth in what has, so far, been a very limited market for small diesels, and it plans to augment sales with local production. In the Far East, it already has production facilities in Thailand and Indonesia, and envisages importing locally produced diesel products into Japan.

New product plans concentrate on improving efficiency and emissions, by development of fuel-injection and combustion technology, and expertise within the company. Natural aspiration will be the preferred choice, and further development of high-speed direct-injection designs will help to achieve maximum efficiency.

In the longer term, Yanmar is involved in a Japanese government contract to develop a commercial ceramic gas turbine with multiple fuel capability.

Marine engines up to 3,000hp will be imported, to compete in the 18hp river-boat and fishing-boat markets, and ultimately for generator-set applications.

Michael Smith  
PRS Consultancy Group



In 1987, the company broke new ground, when it introduced a series of diesel outboard motors. This is the 27hp model.

new designs of weight-saving aluminium construction, and using Yanmar's own fuel-injection equipment to produce a high-speed, direct-injection unit with a very high power/weight ratio.

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Michael Smith  
PRS Consultancy Group



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CUMMINS

## Wall Street's patience tried

THE DOWNTURN in the US truck market has come at a horrible time for Cummins Engine, the big US independent diesel-maker.

After several years of slogging out a long-term and costly policy to keep the Japanese out of both the US loose-engine and truck market, the company was rewarded with a net loss in the third quarter this year of \$39.7m.

In May, Mr Henry Schacht, the widely-respected chairman

**Arguments rage about why Cummins has failed to get into the black and stay there**

and chief executive said it was time the company started to make profits and share the gain with shareholders of its long-term investment programme.

The proviso, said Mr Schacht, was that the US economy did not become "unstable". With the fall in the North American truck market, for which Cummins supplies more than a half the engines, some of the "unstable" has already happened.

Arguments rage about the mix of reasons why Cummins has failed so far to get into the black and stay there. One reason is that it has made very heavy weather of modernising its production plants. Its inventory levels of 40 days' worth of stock last year was little changed from 1988, for example. It has probably narrowed the yawning gap in efficiency between its shopfloors and Japanese engine-makers, but it has not closed it.

A second reason is its costly research and development programme - \$150m a year - and the high cost of retaining factories and moving more than 60 production lines.

A third reason is the fallout from its own price-reduction policy, which it decided to ease only in 1987. Three years before that, it had cut the sale prices of its engines by up to 40 per cent in order to defend its market share against threatened Japanese invasions. The consequence for its profits was immediate and long-lasting.

Cummins has been spectacularly successful in keeping the Japanese out, but the cost penalties have been huge. Wall Street appears to be tiring of the story, and now Sir Ron

Brierley's Industrial Equity has a potentially hostile 15 per cent stake.

Over the past six years, Cummins has spent \$350m on the development of new engines. Its manufacturing workforce has been cut by a third and its manufacturing floorspace by a quarter. Unit volume production of engines has tripled, resulting in a jump in productivity per man of 60 per cent. The cost of making engines has fallen 20 per cent.

This gruelling ride has produced the following performance balance sheet. On the upside, sales have doubled to \$3.5bn over six years. Market shares in traditional markets have been defended and the Japanese threat kept at bay.

The downside is a loss, last year, of \$63m following a weak profit of \$14m the previous year. The debt ration has climbed from 28 per cent to more than 40 per cent, which rises to over 50 per cent when off-balance sheet items are included.

Mr Schacht remains adamant that the policies Cummins has followed were the right ones, though he concedes that it could have done things better with its factory modernisation.

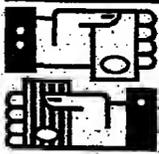
He points to the weak market position now of many US industries and manufacturers who backed off from the competitive challenge posed by the Japanese - a point that is undoubtedly true. He says that if Cummins had simply stuck to its older, bigger engines, and had not spent a lot of money getting into the market for smaller engines, its management would now be presiding over an organisation in terminal decline. That also is true.

The problem is that Cummins has not made money in a strong US market, and now the market is weakening. Japanese truck and engine-makers have not gone away, and may be more interested in the US case than their over-curling domestic market has cooled off. And the patience of Wall Street seems to be wearing thin.

Nick Garnett

SECTION IV

# FINANCIAL TIMES SURVEY



The world's advertising agencies are entering a much more complex and competitive era. The

days of agencies as stock market stars are over. As Alice Rawsthorn reports, the 1990s will be a decade of new challenges for the international advertising industry

## Challenging traditions

"Advertising in its new dimension invades everything. It realises, or materialises, in all its obscurity; it monopolises public life in its exhibition. It is our only architecture today." *Jean Baudrillard "The Ecstasy of Communication"*

ADVERTISING has invaded everything in the 1980s. It has been an era when advertising won its way on to stock markets, into business schools and even on to the intellectual agenda, thanks to fashionable theorists like Jean Baudrillard.

As the decade comes to a close the international advertising industry is entering a much more competitive era. Advertising expenditure is still rising at a rapid rate but there are signs of a slowdown in the US and the UK.

The \$176bn (£113bn) industry is still experiencing buoyant growth elsewhere. Yet many European markets are still immature and the western agencies have, so far, had little success in Japan, by far the largest market in Asia.

At the same time the growth of other marketing disciplines - direct mail and sales promotion - in the US and the UK is challenging the role of the traditional agency.

The days of agencies as

stock market stars are over. Saatchi & Saatchi, once a symbol of the UK industry's success, is plagued by problems and preyed upon by predators.

One indication of the industry's difficulties is that the Wall Street analysts who have followed its fortunes through the 1980s, are switching to other sectors. One has turned to gold mining, another to retailing and a third to fizzy drinks.

"In a few years the marketing sector will no longer exist," said Mr Greg Ostroff, advertising analyst with Goldman Sachs in New York. "After all there is really no reason why agencies should be public companies."

The leitmotif of the advertising industry's development in the 1980s was the creation of international networks. At the start of the decade global advertising was dominated by the giant US agencies. But in the mid-1980s the UK agencies made the most of the strong pound, the soaring stock market and the UK's liberal accountancy regulations to buy their way into international advertising.

Four of the world's top 10 agencies are now owned in the UK. Saatchi has its eponymous



## INTERNATIONAL Advertising

network and Backer Spielvogel Bates. WPP, which began the decade as a supermarket basket manufacturer, now owns J. Walter Thompson and Ogilvy & Mather.

But the days when UK agencies could count on the stock market for support are over. WPP's \$866m bid for Ogilvy this spring was probably the last of the ambitious UK acquisitions.

The weak pound and the sluggish state of the stock market has made it more difficult to finance overseas deals.

The tide has now turned and the UK agencies have become takeover targets. Boase Massimi Pollitt fended off a hostile bid from Boulet Dru Dupuy Petit of France this summer by falling into the friendly hands of Omnicom of the US. WCB

has ceded control of its advertising activities to Eurocom, another French group, to concentrate on media buying.

One of the most interesting aspects of the industry in the 1980s might be Japan's emergence on the international scene. Dentsu, already the world's largest agency thanks to its dominance of the Japanese market, recently

announced its intention to establish an international presence by acquisition. If it succeeds, other Japanese agencies, such as Hakuhodo and Asatsu, may follow.

In the meantime the new international networks of the 1980s are concentrating on consolidation. Even Mr Martin Sorrell, chief executive of the very acquisitive WPP, sees the

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	Cover illustration: Simon Farr	
	Graphics: Bob Hutchison	

early 1990s as a time to "make sure the businesses we already own are running really well."

Obviously the new networks have entered a buoyant market. International advertising expenditure has grown by over 10 per cent a year since the mid-1980s. Mr Sorrell expects continued growth of 10 per cent into the 1990s. But the agencies are frustrated by a slowdown in the US and UK.

The rate of growth in the \$76bn US market peaked in 1984 and has been sluggish ever since. The burden of leveraged bids of the 1980s has forced some companies to cut costs. The pressure on corporate profits has prompted others to switch budgets to short term tactics, like sales promotion.

Mr Phillip Geier, president of Interpublic, the giant US group which owns McCann-Erickson and Litton, is convinced advertising will revive. "There are already signs that the trend towards sales promotion is slowing," he said. But in the short term the US agencies face the prospect of a sluggish economy next year.

The same scenario is now being replicated in the \$12bn UK market. The impact of high interest rates on corporate profits and consumer spending has prompted many companies to cut budgets.

"At the moment the industry is talking itself into a recession," said Mr Jeremy Sinclair, deputy chairman of Saatchi. "The market has not fallen, it has simply slowed down. But that means we have to be very careful about costs."

The effect of a slowdown in advertising - a highly leveraged industry with high fixed costs - tends to be more severe than in other sectors. Many UK agencies are already under pressure. Some have resorted to redundancies.

The outlook in other countries is more optimistic. Elsewhere in Europe, expenditure is still rising rapidly. In some countries, such as Spain and Portugal, this is a reflection of economic growth. In others, like West Germany, it has been fuelled by the creation of new advertising opportunities through TV deregulation.

Even eastern Europe is opening up. A number of western agencies have opened offices in Hungary and the Soviet Union. The eastern European market

is already worth \$1bn a year and could be worth as much as \$10bn by the mid-1990s.

Asia is probably the fastest growing market of all. But Japan, which accounts for 75 per cent of the \$37bn Asian market, is still dominated by Dentsu. Western agencies have intensified their efforts to break into Japan, but the idiosyncrasies of the advertising system and Dentsu's dominance of the media, means they have made little progress.

If internationalism dominated the industry's development in the 1980s, the leitmotif for the 1990s seems set to be its diversification into different disciplines.

Many of the larger agencies have already moved into other areas of marketing such as sales promotion and public relations. So far they have tended to deliver these disciplines separately through independent subsidiaries. One of the challenges for the 1990s will be to combine all these disciplines - as the Japanese agencies do - into an integrated service.

Some agencies have already made progress. Ogilvy has developed a system of "orchestration" whereby clients work with one account director who services their account across different disciplines.

But integration is fraught with problems. Many leading companies have not structured their marketing departments to work across different national markets, let alone across different disciplines.

"Different clients have very different needs," said Mr Alex Kroll, chairman of Young & Rubicam, the US marketing group. "In future we will have to be much more flexible."

The need for flexibility will be exacerbated by the trend away from mass marketing, the agencies' traditional area of expertise. This is most marked in the US where the fragmentation of consumer markets and decline of the mass media has prompted big advertisers, like Procter & Gamble, to restructure to accommodate niche marketing.

All this points a picture of advertising as an increasingly complex and competitive industry. The 1990s seems set to be a decade when the traditional tenets of the advertising industry will be challenged again and again.



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INTERNATIONAL ADVERTISING 3



A COMMON criticism of global advertising is that - in seeking to appeal to so many different people in different countries - it almost always ends up being bland.

The latest campaign from Benetton, the Italian fashion group, is anything but bland. Benetton unveiled its new ads this autumn to howls of protest from everyone from US civil rights groups, to right-wing extremists in France.

The cause of all this outrage is the latest instalment of the "United Colors of Benetton" campaign which featured a black woman breast feeding a white baby and another of a black and a white hand locked together in hand-cuffs.

The campaign has won awards in France; been attacked in the US, and banned from the Underground in London. And Benetton has fired Eldorado, the French agency behind it all.

JAPAN

Foreign targets beckon

TO THE unenlightened western eye, Japanese advertising is mystifying. The subway stations of Tokyo are plastered with posters of businessmen with boulders falling on their heads or tethered to their chairs. The television screens blare out commercials crammed with abstract images.



The Japanese industry is vast and full of idiosyncracies, reports

Alice Rawsthorn

Mystifying though its output may be, the Japanese advertising industry is booming. Japan's ¥4,417bn (£20bn) advertising market is the second largest in the world, after the US. So far the idiosyncracies of the advertising system have ensured that the Japanese agencies have continued to dominate it.

Yet competition from western agencies is now intensifying and the Japanese agencies are becoming more ambitious about expanding overseas. The agencies now face the challenge of coming to terms with the internationalisation of the advertising industry.

Advertising gained momentum in Japan in the 1970s thanks to the growth of the economy and the trend towards westernisation. But the industry suffered a slow-down after the oil price rises of the late 1970s and early 1980s when corporations turned their attention to exports.

Since the mid-1980s the political squabbles over Japan's trade surplus has encouraged corporations to concentrate on the domestic market. The political programme of deregulation has also created a new generation of advertisers, such as financial service companies. At the same time the combination of a strong currency and the apparently insatiable Japanese appetite for luxury imported goods, has enticed foreign companies into Japan.

It rose by 8 per cent to ¥3,945bn in 1987 and by 12 per cent to ¥4,417bn in 1988. Advertising now accounts for 1.2 per cent of Japan's gross national product, compared with 1 per cent in the early 1980s.

The advertising industry has expanded dramatically. There are now 4,000 agencies in Japan, according to the Japanese Advertising Agencies Association, against 3,500 five years ago. The number of people employed in the industry increased by a sixth to 84,500 last year alone.

But the balance of power in Japanese advertising, has stayed the same. Dentsu, the world's largest advertising agency, still dominates the market with gross income of

Japanese agencies by gross income in 1988	
1. Dentsu	\$1,228m
2. Hakuhodo	\$622m
3. Dai-ichi Kikaku	\$142m
4. Daikoku	\$140m
5. Tokyu	\$135m

Source: Advertising Age

¥1,228bn, or 24 per cent of all expenditure. Hakuhodo, its closest competitor, has 10 per cent with income of ¥512bn.

Dentsu and Hakuhodo have managed to maintain their powerful positions, not only against increased domestic competition, but also against the influx of western agencies coming into Japan.

The secret of their success lies in the structure of the Japanese media buying system. The sheer scale of their media spending power is an obvious advantage in securing the best space in newspapers and magazines. Dentsu alone accounts for a fifth of all Japanese newspaper advertising.

They exert even greater influence in the television industry. The ¥1,316bn Japanese TV market is divided between "spot" commercials - which, in theory at least, are bought on an open market - and "programme" advertising whereby agencies are involved in the production and sponsorship of programmes.

Dentsu not only has shareholdings in several TV stations, but is involved with half of all the primetime programmes on Japan's five national TV channels. Hakuhodo is involved with another fifth. The large Japanese advertisers have little alternative but to deal with Dentsu or Hakuhodo if they want decent exposure for their campaigns.

The western agencies face the parallel problem of the idiosyncracies of the Japanese advertising system. The Japanese industry, like the advertising industry in most other countries, is modelled on the US system, but there are significant differences.

Japanese agencies, for example, tend to offer a wide range of marketing services, such as sponsorship and sales promotion, as well as advertising. There is also no concept of "client conflict" in Japan. Agencies can, and do, work with several clients.

Moreover the creative content of Japanese advertising is often mystifying to westerners. The Japanese favour a subtle approach, a soft sell, which could not be more different from the hard sell of the American agencies.

Most western agencies have chosen to enter Japan through joint ventures. The Interpublic agency, McCann-Erickson and Linde, have joined forces with Hakuhodo. Grey is with Daikoku and Saatchi & Saatchi with Yomiko.

Conversely the Japanese agencies have found it difficult to expand into other countries. Even the mighty Dentsu derives just 10 per cent of its billings outside Japan. Hakuhodo is still losing money on its small international network.

There are signs of the Japanese adopting a more ambitious approach to international expansion. Dentsu recently established an overseas management team to orchestrate its overseas activities. Over the next few years it intends to establish a significant international presence, probably by acquisition.

If Dentsu is successful, other agencies may follow in its wake. The Japanese agencies will then have to make the leap into the wider world of international advertising.

UNITED KINGDOM

Little cause for seasonal cheer

THE atmosphere at the advertising agency Christmas parties in Soho and Covent Garden will be far from festive this year. The mood will be subdued, reflecting the uncertainty currently pervading the UK advertising industry.



Agencies face an intensely gloomy outlook, writes

Lisa O'Kelly

Few in the industry will admit to being seriously concerned. "It may be conventional wisdom that, when the economy catches a cold, the advertising industry gets pneumonia," said Mr Mike Waterston, director of research at the Advertising Association. "But that is not the case."

But the fact that, after a decade and a half of uninterrupted growth, the advertising industry faces the threat of recession. As consumer spending has slowed down and the pressure on corporate profits has increased, advertising expenditure has been cut.

The rumourous of redundancies that have been flying around the industry in recent months appear to have become a reality. Saatchi & Saatchi is thought to have made up to 30 people redundant. D'Arcy Masius Benton & Bowles laid off 26 staff last month.

The most startling manifestation of the industry's troubles is the way that the glittering success story of Saatchi has turned sour. Once a symbol of Britain's strength in world advertising, Saatchi, is now rumoured to be a takeover target for foreign groups.

At least some of the industry's gloom can be attributed to the uncertainty at Saatchi. Mr Brian Sturges, an analyst with Barclays de Zoete Wedd, said: "The UK agencies have basked in Saatchi's reflected glory for so long that its problems are interpreted as symptoms of the business as a whole."

4 per cent this year - with expenditure of £7.5bn - and to 1 per cent next year. Analysts are even gloomier. Mr Sturges expects zero growth in real terms for 1990.

The industry managed to escape the last recession of the early 1980s relatively unscathed largely because it was able to ride on the back of the growth of two lucrative new areas of advertising expenditure: financial services and technology. This time, though, there is no such new blood. Instead, one of the biggest advertising money-spinners of the decade, the Government privatisation programme, looks set to be cut in the face of fierce criticism of the water privatisation campaign.

Mr David Jones, managing director of Lowe Howard Spink, said: "I see no reason to be optimistic for 1990. There is little growth from existing clients and very little new business around to compensate. The only agencies that can go into 1990 expecting a good year are those that have won new business during 1989." But in general agencies have won much less new business this year than in 1988.

Inevitably all the uncertainty has hit the stock market. Ms Sue Bailey, an analyst at Warburg Securities, said most advertising stock are currently trading at a 30 per cent discount.

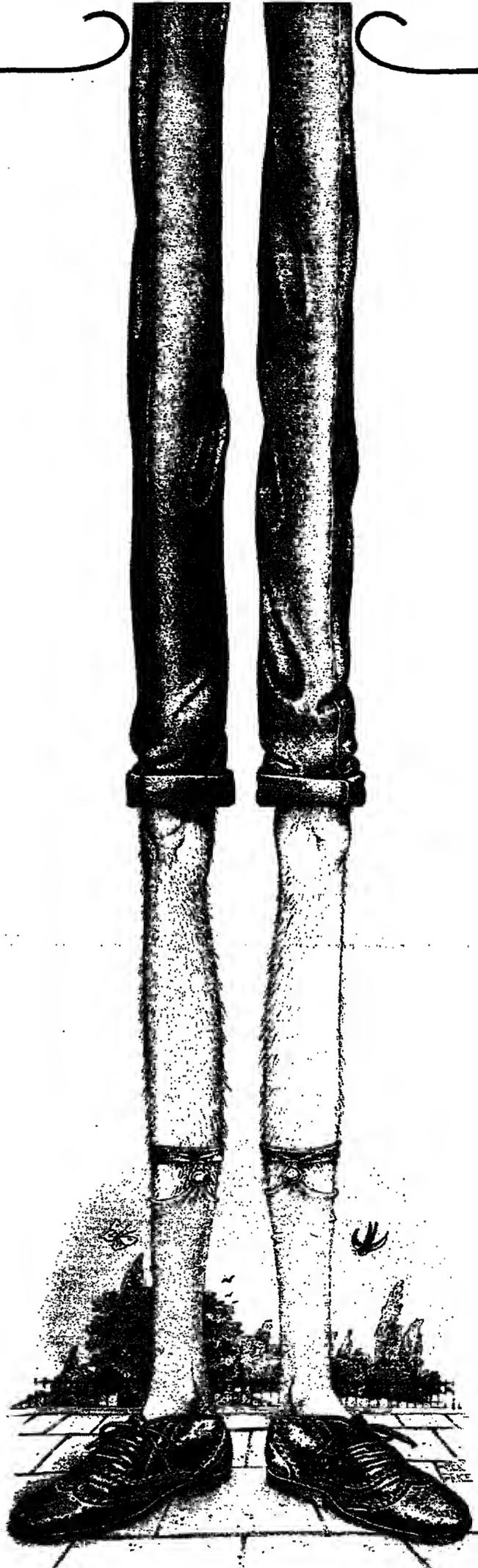
The jittery atmosphere has been reflected in personal shake-ups at most of the leading groups. It has also resulted in a crisis of creative confidence, with nervous clients demanding less adventurous creative strategies. Frustrated agencies worried that their reputations may suffer, have been playing musical chairs with their creative directors.

In the past, the larger groups could rely on overseas acquisitions to massage profits. Those days are over. The pound is too weak and share prices too low for international deals to be viable. WPP's £556m acquisition of Ogilvy & Mather in May looks like the last of the big trans-Atlantic takeovers.

The tide is now turning and UK agencies are finding themselves the prey of the Americans and Europeans. Earlier this year, Rosse Massimi Politt staved off a hostile bid from Boulet Dru Dupuy Petit of France only by falling into the friendlier clutches of Omnicom, the US group. Eurocom, another French concern, has won control of WCRS's advertising interests. Saatchi is being stalked by all manner of

UK agencies by billings in 1988	
1. Saatchi & Saatchi	£324m
2. J. Walter Thompson	£284m
3. SSS Dorland	£261m
4. Young & Rubicam	£181m
5. Ogilvy & Mather	£175m

Source: Campaign



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\*Source: Advertising Age 5/6/89

INTERNATIONAL ADVERTISING 4

SAATCHI & SAATCHI

Sharp reversal in fortunes

TO SAY that 1989 has not been Saatchi & Saatchi's year, would be a considerable understatement. Whatever its past role in breaking the dominance of the US agency networks, Saatchi's grand strategy has come sadly, and publicly, unstuck in the past 12 months.

Although the bubble started to burst following the Ted Bates deal in 1986, the turning-point came officially in March at the company's annual meeting, when Saatchi warned that there was likely to be a pre-tax profit fall in 1988-89. It talked of substantially lower first half profits - in the event they were down from £20.2m to £11.1m - but emphasised that a much stronger second half was in view. While interest costs and the absence of exchange rate gains would drive the pre-tax figure down in the 12 month period, there were hopes that full year operating profits might be little changed.

Looking at the causes of this reversal in fortunes, Saatchi itself was inclined to cite the economic and political uncertainties in the US, hitting the communications/advertising side, and a margin squeeze in the consultancy arm. Since then, however, the angst has continued apace. The consultancy businesses - long-rumoured, and long-denied, to be a disposal possibility - were officially signalled as being for sale in June. Apart from a few minor deals, however, no significant transaction has yet been announced, inevitably prompting rumours that the prices being sought are proving insubstantial. Estimates of the possible proceeds have been scaled down by some analysts to less than £200m.

Fairly inevitably, too, bid speculation and management changes, however, has clouded



Charles and Maurice Saatchi: traumatic 12 months

around the group. Talk of both management buyout bids and external predatory moves has been fuelled by the holding of a stake of more than 10 per cent by Southwestern Asset Management, a small Tennessee-based investment group which has made astute investments in the agency sector before, and by the acquisition of a much smaller stake by Fininvest, the Milan-based holding company for Mr Silvio Berlusconi's media interests.

And, fighting back against the gloom, Saatchi has announced yet more management changes although this time they look arguably more significant. Mr Robert Louis-Dreyfus was brought in as chief executive in October, from Dan & Bradstreet; Mr Charles Scott, a colleague of Mr Louis-Dreyfus at D&B, became finance director. Meanwhile, the Saatchi brothers stepped down as joint chief executives, although Mr Maurice Saatchi remains as chairman.

This recent burst of bid speculation and management changes, however, has clouded

earnout agreement on Hay Group - a significant part of the consulting arm - has been blamed, rightly or wrongly, for distorting profit performance and, more crucially, investment trends. The suggestion has been made that, anxious to benefit fully from the earnout deal, profits they have maximised ahead of the ending of the payment period in late-1987, and investment in training, technology and the like deferred.

The ad spend deferrals in the current year, in the words of one analyst, "tipped things over the edge". The size of these deferrals has never been estimated to be large - perhaps £25m against first half revenue in communications of well over £300m. However, with a cost-base already askew, the damage at the margin becomes more critical.

Where that leaves the group is a moot point. When the sale of the consulting arm was announced, the point was made that this might have left Saatchi broadly unscathed, able to concentrate energies on the communications businesses, and that if some fairly radical cost-cutting was implemented, the company might, indeed, be well-placed to resume an upward path.

As months have clocked by, the situation has clearly not become any rosier, and in spite of the recent introduction of new talent, the extent to which Saatchi has managed to grip with its perceived management problems remains a question mark in many observers' minds.

In short, while Saatchi may still point to its previous and formidable record in creating the group, the task ahead of re-establishing it looks every bit as tough.

Nikki Tait

WPP

Conundrum for the City

"IT COULD be an interesting comparison," remarked one leading analyst reviewing the two "heavyweights" of Britain's advertising industry shortly after plans by Saatchi & Saatchi to put its management consultancy arm up for sale were first officially announced.

On the one side, ran the argument, would stand Saatchi, a potentially unscathed company (ex-consultancy) but heavily weighted to businesses in the slower-growing advertising area, and with a perceived lack of management controls.

On the other would come WPP. Mr Martin Sorrell's highly acquisitive group, went the WPP side of the equation, a better balance of interests, tighter financial checks, but have yet to prove that its hefty acquisition programme had genuine "industrial" rationale. It would also be handicapped by high debt levels following its most recent burst of deal-making.

In the event, the delays to the disposal of the Saatchi consulting interests have made the remarks premature. But the WPP side of the equation remains something of a conundrum for the City, as evidenced by the share price picture - which has done no more than oscillate rather wildly between 600p and 750p - over the past year. While analysts are pessimistic about the prospect of between £75m and £77m, and fairly impressive earnings growth well in excess of 20 per cent, the "glamour stock" image of the bull market has faded somewhat.

The company's origins - a meteoric rise over the past four and a half years - have been well-documented. They remain, however, highly relevant to an assessment of the group today. In a nutshell, the story began in 1985 with the



WPP's Martin Sorrell: heavily indebted after many acquisitions

arrival of Mr Martin Sorrell, an accountant by training and previously Saatchi's finance director, as a substantial shareholder in Wire and Plastic Products, a tiny Kent-based manufacturing company. An extensive acquisition programme followed, much of it making use of deferred profit-related payment structures and principally targeted at small, medium-sized companies in the marketing services field.

The first quantum leap came in mid-1987, with the acquisition of the New York-based JWT Group for \$660m. What began as a hostile bid - the first in the sector - for a troubled but old-established advertising agency group, eventually ended in agreement.

That was then followed by a second big step earlier this year when WPP added the Ogilvy & Mather network for \$822m, this time in an agreed deal. In between these two acquisitions, the stream of smaller deals continued. Since Ogilvy, however, the pace has ground to a near-halt. No one could doubt WPP's determination in pursuing the

tures which need to have an offer. At the time of the Ogilvy takeover, the different regional strengths were also stressed, with O&M bolstering WPP's presence in the relatively fast-growing European market.

The second question mark is exposure to advertising itself, where projected growth rates, although varying substantially between geographic regions, have been clouded by economic pressures generally. The result of embracing first JWT and then Ogilvy, means that just more than half WPP's revenues now come from this source. That would still compare favourably with, say, Saatchi minus its consultancy interests. Nevertheless, the deals over the past couple of years have changed the character of WPP from an investment perspective.

To this, should be added the financial considerations. The Ogilvy deal left WPP with net debt immediately after the transaction of around \$360m. Gearing is a difficult subject, given the problem of goodwill write-offs and WPP's contention that it takes in "brand valuations" in respect of certain subsidiaries' names. And, on the plus side, it should be said that the Ogilvy acquisition significantly diluted the importance of earnout deals within the context of the group as a whole.

But debt levels, perhaps more than anything else, has tended to worry the London stock market recently, with analysts talking of interest cover of a less-than-extensive three times. In the case of JWT, debt was paid down by the agency's discovery of property transaction possibilities - in particular in Japan. The jury is still out on how Ogilvy will unfold.

Nikki Tait

YOUNG & RUBICAM

Enigma of Madison Avenue

BACK IN 1926 an ambitious, young advertising agency left its offices in Philadelphia to move to the sixth floor of a big building at 285 Madison Avenue in New York.

The agency was called Young & Rubicam and it had moved to Manhattan to handle an account for Jell-O, the jelly made by General Foods. Today Y&R is still based at 285 Madison Avenue, although it has bought the building and now occupies more than just the sixth floor. And it still does the advertisements for Jell-O.

Y&R is the largest US-owned advertising agency and the second largest agency in the world after Dentsu of Japan. It has interests in public relations, sales promotion, design and direct marketing, as well as advertising with world-wide billings of \$5.5bn (£3.5bn) last year.

Y&R is something of an enigma in the international advertising industry, in an era when the publicly quoted agencies - such as Saatchi & Saatchi, WPP, Omnicom and Interpublic - have hogged the headlines with dramatic rises and, sometimes, equally dramatic declines. Y&R has guarded its privacy as a private company.

In the mid-1980s when Saatchi and WPP were rarely out of the limelight, Y&R seemed somewhat staid and stodgy. But more recently, when the marketing services sector has slumped on the London and New York stock markets, it has looked enviously stable.

The Y&R of today is run from the same corner office on the sixth floor of 285 Madison Avenue where Ray Rubicam, one of the agency's founders wrote his advertisements. The office is now occupied by Mr Alex Kroll, who played professional football for the New York Titans - forerunners for the Jets - before joining Y&R.

initially in the creative department.

The foundations for the latter-day Y&R were laid in the 1970s under Mr Edward Ney, one of Mr Kroll's predecessors, as chairman. He developed the concept of the "whole egg" strategy whereby Y&R would offer a whole range of marketing services to complement advertising.

Y&R began in 1973 by buying Wunderman Worldwide Inc direct marketing. It then acquired Cato Johnson, a sales promotion company, and Burson-Marsteller, an international network of public relations consultancies. A few months ago it diversified into design by buying Landor Associates, the international consultancy based in San Francisco.

Originally Y&R had planned to go public to finance its expansion. But the US stock market slumped after the oil price rises of the early 1970s. Suddenly it seemed more advantageous to make acquisitions as a private concern. Y&R scrapped its plans for flotation.

Mr Kroll is convinced that private status is an enormous advantage today. "First, we can offer stability to our employees," he said. "Second, a public company has two clients - its advertisers and its shareholders - and sometimes their interests can clash. Our management spends 99.9 per cent of its time working for our real clients."

Last year Y&R strengthened its private status by effecting a legal change into a partnership of its 1,000 shareholders. Only active employees are allowed to hold shares. Even Ray Rubicam sold out when he left. He then went on to make even more money from real estate and banking in Arizona than he had from advertising.

At times the group's private status has been useful for less



Alex Kroll, chairman of Y&R

salubrious reasons. Over the years Y&R has been scarred by a series of scandals. This autumn alone it hit the headlines when Bette Midler, a singer, sued it for imitating her singing style in a commercial; when the rumpus over backing of Lord Einstein O'Neill & Partners' breakaway from WPP was resolved; and when it was indicted by a US grand jury on charges of conspiracy and racketeering.

The racketeering charges could have had devastating damage to a publicly quoted agency. Mr Kroll blanched when asked about their impact. "It is business as usual here," he said. "We have not lost any business, but we have put on some new business. That is all I can say."

Meanwhile Y&R's management is tackling the task of strengthening its individual businesses, while integrating

its different divisions into a coherent marketing services group.

Y&R has already established itself as a leading advertising agency as a viable international network. Its chief challenge is to stave off the challenge of smaller agencies. Its main New York agency was recently restructured - into a more flexible format - where more work in smaller accounts, and counter criticism that it was becoming bland and bureaucratic.

On the international scene, it has introduced a "creative leadership" programme whereby the chief directors of all its agencies gather together once a year to discuss the quality of their output.

But the chief challenge is to use its expertise in the different disciplines to provide an integrated marketing service. It has begun by developing formulae whereby a "lead" account director from one discipline maps out the marketing strategy for a client and then co-ordinates a coherent service through the other disciplines.

Mr Kroll's clients are already using the group's services in more than one discipline. Yet Y&R, like most of its competitors, still has a long way to go before it can claim to offer an integrated marketing service.

"Of all the marketing groups Y&R has the best pieces in place to provide an integrated service," said Mr Greg Ostroff, an advertising industry analyst with Goldman Sachs in New York. "Now it must prove that it can pull them together. That is its challenge for the future."

Alice Rawsthorn

DENTSU

Giant taking on the world

"Dentsu does more than any single corporation, anywhere in the world, to mould popular culture."

Karel van Wolferen, "The Enigma of Japanese Power" DENTSU is no ordinary advertising agency. It is one of the most powerful institutions in Japan. Its influence extends beyond the media into the highest echelons of Japanese politics and industry.

Year after year it has topped Advertising Age's table of the world's highest advertising agencies. In last year's league table Dentsu - with billings of \$9.5bn - was comfortably ahead of its closest competitor, Young & Rubicam of the US and Saatchi & Saatchi of the UK. Its record is all the more remarkable in that, whereas Y&R and Saatchi are international agencies, its interests are concentrated almost solely in one country, Japan.

In the past Dentsu, like other Japanese marketing groups, has adopted a cautious approach to international expansion. It has not even become more aggressive. The advertising agency that towers over the cultural life of its own country is taking on the world.

Dentsu dominates its domestic market in a way which would be inconceivable in any other country. Japan is the world's second largest advertising market, after the US. Dentsu's turnover of ¥1,137bn (£52bn) is twice as high as those of its closest competitors, and almost as high as those of all the other top 10 Japanese agencies combined.

Dentsu is also a formidable force in the Japanese media. It accounts for a fifth of all

advertising in newspapers, a sixth in magazines and a third of television advertising.

The tightly regulated structure of Japanese broadcasting - where advertising agencies not only buy commercials, but also sponsor programmes - means that Dentsu also exercises control over the content of programming. Its greatest strength is in prime-time television, where it is involved with half of all the programming on the five national TV channels.

This means that advertisers have virtually no alternative

to deal with Dentsu if they want to advertise on Japanese television. Given that there is no concept of "client conflict" in Japan - where it is customary for agencies to work for several companies in the same industry - there has been no limit to Dentsu's capacity for growth.

Over the years Dentsu has used its dominance of the television system not only to stave off domestic competitors, but also to prevent western agencies from penetrating the Japanese market.

Dentsu has also protected its position with an impressive array of *jinnyaku* - or personal connections - in politics and industry. It not only has close contact with the ruling Liberal Democratic Party, but also employs the sons of several senior politicians and industrialists.

Dentsu is also protected by its power over the media. It is actively involved in television through its minority shareholdings in TV channels and producing agencies. And it can exercise indirect influence because of its client as the biggest single source of advertising revenue for Japan's newspapers and magazines.

In many western economies legislation exists to prevent advertising agencies from being so closely involved with the media. The only possible parallel with Dentsu is that of Gianni Agnelli's Fiat in Italy, which is not only the largest

stepped-in by offering financial and managerial support to the new stations. Today it is doing the same with the new media.

The sheer scale of Dentsu - and its political power - has made it almost invulnerable in Japanese advertising. Its competitors carp that it is losing its creative edge. But there is still no sign of Dentsu losing its dominant position in Japan's extraordinarily buoyant advertising market.

In spite of its success in its own country, Dentsu has been reticent about expanding overseas. Its first foray into another country when it followed Toyota into the US in the 1950s - was a failure. Chastened by this experience Dentsu has since concentrated on consolidating its position in Japan.

Dentsu already has a string of small overseas agencies and a third of HDM, the international network it runs as a joint venture with Y&R and Eurocom of France. But the appointment of Mr Gohsei Kogure, as president four years ago, signalled a change in its international strategy.

The company has decided that it can not depend on start-ups and joint ventures if it is to become a serious player in international advertising. It now believes that the acquisition of an existing network - or networks - is the only solution.

Dentsu could afford to acquire almost any agency it chose. Whether the business of Japanese cinema will succeed in its bid to become a force in international advertising remains to be seen.

Alice Rawsthorn

Lisa O'Kelly watches the making of a television commercial

A shoot in search of spark

IT IS 10 o'clock on a perfect English autumn morning in the grounds of a fine stately home in Hertfordshire, in southern England.

Dazzling sunshine filters through the red and gold leaves of the chestnut trees. A mist rises from the ornamental lake hangs in the crisp, cold air in front of the summerhouse.

Behind the summerhouse snakes a vivid blue plastic pipeline belching what seems to be some sort of gas. It is dry ice. By the time it rolls down the grassy bank into the lake, the dry ice looks like mist.

Perched on a fallen log Ms Bogie Arnold, art director, explains, "There was plenty of real mist rising naturally off the lake when we arrived at six o'clock this morning. But it has disappeared so we had to create our own."

Ms Arnold is from Bartle Bogie Bergaty, the largest privately-owned advertising agency in the UK. The reason that she is overseeing the creation of fake mist in the grounds of the stately home is that BBH is shooting a new television commercial there

for Sony, one of its clients. The commercial is for the TR55 Camcorder, the world's smallest video camera.

Ms Arnold is not alone on location. A Sony executive, a copywriter and two account executives from her agency, a film crew of 40; a team of caterers; two bird handlers; a dog handler; a make-up artist and three actors. Two of the actors are children with a mother and grandmother in tow.

Most of them have been at the stately home since dawn, having put in 14 hours of work on the previous day. They are hoping to wrap everything up by midnight.

The plot of the commercial is deceptively simple. A couple pushing a pram are strolling with their dog beside a lake. The man is videoing the scene. The woman stops to throw a stick for the dog and

suddenly the pram rolls away. They turn in horror as it hits the edge of the lake.

At this point, a large hand enters the scene and takes the camera from the man "who is, it turns out, a child. So is his 'wife'. The pram turns out to be a toy with a teddy inside. The large hand belongs to the children's father. All of this is intended to prove how compact and easy to use the TR55 Camcorder is.

It all sounds so uncomplicated. But making a nine-year-old girl and a 12-year-old boy look like adults and a miniature dog to look like a wolfhound is by no means easy.

"We looked at lots of different ways of doing this but decided not to cheat, because it would have counteracted the surprise," said Mr Chris Hartwell, who is directing the commercial for Ridley Scott Associates.

"So we are using all the legitimate tricks to make them look older: low camera angles; silhouettes and special props. The only sneaky thing we are doing is to run the camera slightly faster than normal, to smooth out the childish way that they move."

Mr Hartwell has spent much of the day before and most of that morning crawling on his belly, calculating the right angles to achieve the desired effect. Each shot seems to take hours to complete.

"The production values on a commercial have to be perfect," explained Ms Arnold. "It may be only 30 seconds long but it has to be riveting because it will be shown so many times."

"A detail out of place in a soap opera or a feature film does not matter. But every detail counts in a commercial." These important details

keep the technicians on the shoot very busy. But time tends to drag for the onlookers from the agency and its client.

"It is marginally less interesting than watching what day," said BBH account director Mr Stephen Gask, stamping his feet and buttoning his baseball jacket against the cold.

"People think of a shoot as a glamorous day out for the client and agency but really I would much rather be back at the office," said Ms Brenda Jones, Sony's advertising manager. "I have a mound of paperwork on my desk. Being here is cold, tedious and tiring."

Nevertheless Ms Jones attends every Sony shoot. "I like to be on the spot in case anything goes wrong or they need technical advice," she said. And, as Mr Gask points out, since she signs the cheque it is only reasonable that Ms

Jones should be there. How much the cheque amounts to on this occasion, nobody is prepared to say.

Commercials can and do cost up to £1m. But a conservative estimate would put the production budget on this one at around £150,000. It is a standard shoot with no special effects or expensive extras. The most expensive item on the budget was weather insurance at £8,700; apparently an essential, especially when filming in the UK.

Lunch was the high-spot of the day. But the crew was disgruntled as demand for blackberry crumble outstripped supply.

A touch of old-style glamour was supplied by the emergence of Mr Oliver Lewis-Barclay, the agency account manager with a bottle of chilled champagne for Ms Jones.

The rest of the company astemiously refused a tippie as they braced themselves for an afternoon spent watching the crew and its demand for close-up shots of the film camera and trying to keep warm. But who said advertising was glamorous?

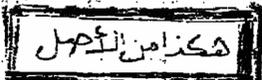
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INTERNATIONAL ADVERTISING 6

World-wide communications networks are some way off, writes Raymond Snoddy

Master plan still at embryonic stage

LAST YEAR Mr Rupert Murdoch, chief executive of News Corporation, asked himself a series of rhetorical questions in public about the future of the media business. Is a global communications network a reality? "My unequivocal answer is yes," replied Mr Murdoch. Are there really going to be world-wide media networks? "My answer is yes, both print and electronic," said the man who already owns one of the largest print and electronic media networks in the world. Is it really going to be possible for an advertiser to achieve, in practice, a single order with the media of his choice across the world? "Again my answer is yes," said Mr Murdoch who since that prediction was made has launched the four satellite channels of Sky Television and committed himself to keeping the venture going for up to five years if necessary to break into profit.

Mr Murdoch's prediction about placing a single media order world-wide is perhaps still a shade futuristic. The media world is not yet one. But the News Corporation chief executive whose media interests include everything from Twentieth Century Fox film studios and Fox Television, the embryonic fourth network in the US, to five national newspapers in the UK as well as Sky Television, is almost a global personification of the dramatic changes now effecting the structure of the media. The whole concept of globalisation of the media in general and of advertising markets in particular, combined with the push towards 1992, the year when the European Community aims to create a single European market, has become almost a cliché. As a result there is a danger of under-estimating the dramatic changes now effecting the media in Europe and virtually all of the developed world.

The main structural changes effecting media companies, advertising agencies and advertisers is being driven by a cocktail of causes that include: the technology of satellite and cable which has, at least in theory, removed for ever the limits on the number of television channels available because of the shortage of over-the-air broadcasting capacity. It is far from clear however how long it will be before satellite channels, even those aimed at the European market, such as Super Channel, will be able to earn substantial sums of money from advertising. Both Mr Murdoch and his UK satellite rival British Satellite Broadcasting will be very dependent on film subscription revenues - at least in the early years. A process of deregulation driven by a mixture of technology and ideology of the sort shown by the British Government's commitment to greater choice and competition (with-

out damaging quality). Although deregulation has led to an increase in the number of television channels - new channels are on the way, for instance, in Spain and the UK - the process has, however, been far from total. There have been international moves both at the Council of Europe and at the European Commission to set new minimum standards for trans-frontier broadcasting covering everything from the proportion of European content in programme schedules to the frequency and amount of television advertising. The growing strength of multi-national advertisers through a process of mergers and takeovers which has in turn led to a marked increase in internationally co-ordinated media buying particularly across Western Europe. A wide range of media analysts have documented both the growing power of multi-media corporations such as Bertelsmann of West Germany,

Hachette of France and Fininvest of Italy, the corporate vehicle of Mr Silvio Berlusconi, and the growing commercialism of the European media. Consultants Booz Allen & Hamilton found that in the past 18 months there were mergers and acquisitions totaling \$3bn in the European broadcasting industry with the arrival of new players such as Bouygues, Compagnie des Eaux, Fiat and Matra, each attracted by the fact that broadcasting in all its forms is forecast to be a \$20bn industry in Europe by 2000. The fundamental changes in the structure of the media have been matched by changes in the media buying market. According to stockbrokers James and Dreyfus there has been a steady growth of media independents and concentration of media buying into a smaller number of hands over the past eight years. The indications within the past year, however, are that



Media moguls: Rupert Murdoch and Silvio Berlusconi

the trend is beginning to dramatically accelerate with developments in Europe leading the way. James Capel argues in a paper published last month. To begin with the increase in the market share of media independents was driven locally. But more recently the concentration of media ownership "has led many multinational clients to look to co-ordinate their media buying and planning on a pan-European and occasionally international

basis in order to provide an equally strong representation on the buying side." However, they will face increasingly complex decisions and the process of liberalisation will not just mean more channels in more homes. In many countries the relationship between advertiser and broadcaster could begin to change with advertisers beginning to exercise a more direct influence over the nature of programming. A greater reliance on sponsored programmes

and on barter deals seems likely where such practices are not forbidden by regulation. Yet the evidence from the US, by far the largest media market, is somewhat contradictory about the impact of change. The growth of multi-channel cable and local independent television stations has most certainly fragmented the US television audience. Since 1970 it has also reduced the audience share of the three main US networks from almost 90 per cent to about 60 per cent and the trend is still downwards. Over the same period the share of national advertising revenue has fallen but only from 60 per cent to 50 per cent and the actual amount has increased significantly in real terms from \$5.1bn in 1980 to \$6.5bn last year in constant 1980 prices. The US experience suggests that however satellite television channels are launched or however sophisticated the centralised media buying operations become advertisers in Europe will, for the foreseeable future, still have to pay dearly to reach mass audiences through existing commercial television stations.

MEDIA BUYING

A market revolution

FOR YEARS media buying has been cast in the unenviable role of one of the least attractive areas of advertising. But in the past year or so it has leapt into the limelight in a wake of international deals and counter-deals. Media buying is the business of buying space for advertisements on television or in newspapers and magazines. Traditionally it has been conducted by specialist media departments within advertising agencies, or by media independents, which are specialist media companies. But the concentration of media ownership among a handful of international groups and the growth of multinational advertisers has led to a revolution on the European media buying scene. Saatchi & Saatchi, the largest UK advertising agency, has centralised its media buying into Zenith, a giant buying group. WCRS, another UK agency, has reduced its involvement with advertising - the traditional base of its

business - in favour of taking control of Carat, the French media buying concern. Other advertising agencies are reappraising their position in media. The challenge is to devise the best structure for coping with the rapidly changing media scene. The revolution in media buying has taken place against the background of an explosion within the European media industry. The deregulation of national television systems is expanding the advertising opportunities in many countries. Linas, the international agency, predicts that by 1995, there will be 150 main commercial channels in Europe, compared with 40 today. The publishing sector is also expanding with the launch of new newspapers and magazines. The progress of new printing technology has enabled the big European publishing houses to expand within their own markets and into other countries. This growth will boost advertising in each market. But it

will also cause fragmentation making it more difficult for advertisers to target particular categories of consumers. This will demand greater skills and resources from agencies in media buying. These problems will be compounded by the concentration of ownership in the hands of a few, increasingly powerful players. In the 1990s six forces - Mr Axel Springer and Bertelsmann of West Germany, Mr Silvio Berlusconi of Italy, Groupe Hachette of France, together with Mr Robert Maxwell and Mr Rupert Murdoch, both based in the UK - will dominate the European media market. The rationale behind Zenith and Carat is that, by combining the media buying of several agencies they can cut costs by benefiting from economies of scale in an increasingly capital intensive area. They could also, or so the theory goes, have enough buying clout to counter the growing power of the international media owners.

But this poses a serious threat to the profitability of the media buying operations of other agencies. Zenith and Carat could use their critical mass to undercut their competitors. It is this threat that has prompted the other agencies to review their media buying arrangements. One option is for agencies to band together in media clubs. Media clubs have already been formed in southern Europe to achieve critical mass against powerful forces like Carat. Clubs have also been established for several years in highly regulated markets, such as Scandinavia and the Netherlands, where agencies have joined forces to reduce overheads. Other agencies are pursuing different options. The likeliest outcome of all this activity will be the emergence of a handful of top European buying shops, probably including Carat, Interpublic, the Media Partnership and Zenith. The outlook for small local operations is still fairly optimistic. But there is a question mark over the future of the media departments of middle-sized agencies. Whatever the outcome, the traditional world of media buying will never be the same. Jo Vale

ZENITH

Clout and the 'critical mass'

THEY ARE known as "those hoodlums at Zenith," so it is rather disappointing to walk into Britain's biggest independent media buying business to be greeted by an atmosphere of intense, if slightly frantic concentration, and not a gold medal in sight. Zenith is in the vanguard of the revolution which is sweeping through the European media buying scene. It was formed a year ago to centralise the media buying for all the advertising agencies owned by Saatchi & Saatchi in the UK. The rest of the ad industry likes to think of the Zenith buyers as barrow boys. But Zenith prides itself on hiring graduates. Young men and women tap away at computer keyboards with an appearance of great productivity, make polite requests on the telephone and scribble away at their schedules. Zenith's directors explain grandly that the media business is becoming too complex for the old school of "barrow boy" buyers. "Now we are

looking for people who can grasp the fact that Zenith is trying to change the face of media buying," said Mr Mick Lockett, new business director. Out on the TV buying floor, a buyer in an open-necked shirt is chewing gum and tapping his calculator. He turns to his neighbour unseeingly. "You buying this place, then?" he asked. "Why not buy it with me?" His neighbour shrugs. The phone rings, and the man with the open-necked shirt falls on it, bravado over with for the time being. Meanwhile, Ms Christine Walker, director of broadcast buying, is exercising what Zenith's detractors like to call its "clout". She is firing off a fax to Thames Television complaining about the "bizarre and cluttered" quality of a commercial break featuring two of her clients' commercials broadcast the previous evening. Zenith's competitors accuse it of using its media buying muscle, its "clout", to its own advantage. At Zenith they do not like the word clout. They

favour the term "critical mass". "We had problems with one newspaper group," said Mr Roy Jeans, the regional press buying manager. "But we have the critical mass. They have seen no business from Zenith this year. It has cost them half of their revenue." Critical mass reflects the way that Zenith's employees like to see themselves - as doughty fighters against vast media conglomerates and their equally vast clients. The truth is that media buying is not really all that complicated. Even the television market is little more than a futures market, which would make the average swaps dealer in the City of London gasp at its simplicity. But the Zenith dealers do have the trader's patter. On the national press buying desk, Mr Paul Braithwaite is trying to buy into the Sunday Correspondent for the Halifax Building Society. The spice is all taken. Mr Braithwaite suggests they could move another advertiser out.

The Correspondent calls back. "Oh great," said Mr Braithwaite. "He has stitched me up in the past. You have done me a bit of a favour there. You are on the way to redeeming yourself. How could you move the ad forward a bit?" By the end of the afternoon, the shouting has died down. The television buyers are all busy with their calculators and their pencils, studious graduates again. But suddenly a rumour breaks out that a national newspaper has decided to run a weekend TV campaign at the last minute. This could mean that all the slots booked by Zenith are at risk. "What can we do?" said Mr Tim Greatrex, a TV buyer. "If a big advertiser came along to a TV company and said 'we must have this slot', the TV company would put in their commercial and say that the tape machine had broken down and your own ads were lost in transmission." Geraldine Bedell

Before.

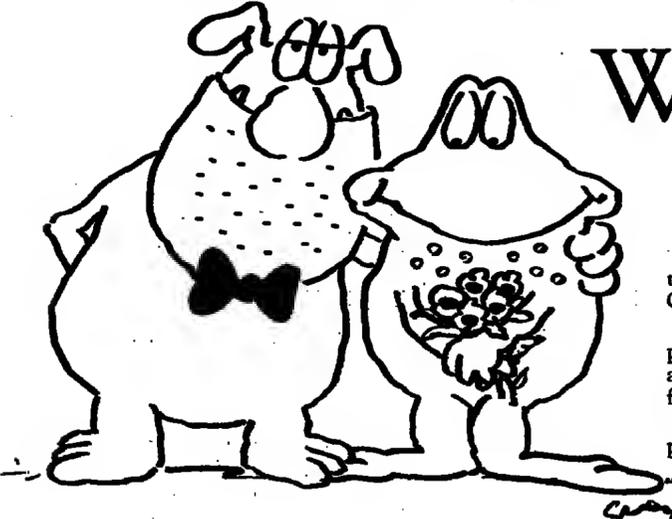
After.

BBDO	27
JWT	23
SAATCHI & SAATCHI	20
DDB	17
O&M	16
DENTSU	11
McCANN	11
Y&R	10
DMB&B	9

1989 CANNES AWARD WINNERS AMONG THE TOP 10 AGENCY GROUPS.

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When a Frog marries a Bulldog things start leaping ahead.

Last year over a thousand agencies from all round the world entered their television commercials to the Cannes Advertising Awards. And, giving five points for a Grand Prix, three points for a Gold, two points for a Silver and one for a Bronze, you can see how the world's leading agencies fared on the left. In only its first year of life, WCRS Worldwide was proud to have come second to BBDO. Now we've become Eurocom WCRS Della Femina Ball, it's not just the name that's bigger.

Other leading European agencies have joined our network bringing their own Cannes winning advertising with them. In fact, if we'd had them within our new network last year we'd have been joint winners with BBDO. If you'd give us a ring we'd be happy to show you how those winners at Cannes were winners in the marketplaces of the world. So our clients are leaping ahead, too. EUROCOM WCRS DELLA FEMINA BALL. 172 DRURY LANE, LONDON WC2B 5QA. TELEPHONE: 01-247 2800. FAX: 01-247 6543.